COMMONWEALTH OF AUSTRALIA

Official Committee Hansard

HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON TRANSPORT AND REGIONAL SERVICES

Reference: Commercial regional aviation services in Australia and alternative transport links to major populated islands

WEDNESDAY, 26 FEBRUARY 2003

TULLAMARINE

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HOUSE OF REPRESENTATIVES

STANDING COMMITTEE ON TRANSPORT AND REGIONAL SERVICES

Wednesday, 26 February 2003

Members: Mr Neville *(Chair)*, Mr Andren, Mr Gibbons, Mr Haase, Mrs Ley, Mr McArthur, Mr Mossfield, Ms O'Byrne, Mr Schultz and Mr Secker

Members in attendance: Mr Gibbons, Mr McArthur, Mr Neville, Ms O'Byrne and Mr Secker

Terms of reference for the inquiry:

To inquire into and report on:

Commercial regional aviation services in Australia and alternative transport links to major populated islands.

WITNESSES

Committee met at 9.03 a.m.

BARBER, Mr William Garfield Thomas, Investment Manager, Latrobe City

CHAIR—I declare open this public hearing of the House of Representatives Standing Committee on Transport and Regional Services in its inquiry into commercial regional aviation services in Australia and transport links to major populated islands. Today's hearing is part of the committee's program of visits and hearings in different parts of Australia. On Monday the committee held hearings at Launceston. Yesterday the committee travelled to Flinders Island for public hearings. In today's public hearing we will hear evidence in relation to submissions from local government, non-government organisations and business operators from Victoria and from King Island in Tasmania. I now formally welcome the representative of the Latrobe City council who is known to me from an earlier manifestation.

Mr Barber—Thank you, Mr Chair.

CHAIR—Mr Barber, although the committee does not require you to take evidence on oath, I have to advise you that these are formal proceedings of the parliament and consequently they warrant the same attention as would attend to the House itself. It is customary to remind witnesses that the giving of false or misleading evidence is a serious matter and could be regarded as a contempt of the parliament. Having said that, you are most welcome. I would now like you to give a five to seven minute overview of your submission and then we will move to questions.

Mr Barber—It is important that I give you an update because we have moved on, fortunately, in the regional airline area, particularly in the area of Latrobe City where we do now have a regional air service. I appreciate the opportunity to appear before you. Mayor Tony Hanning and Chief Executive Officer Richard Hancock have also asked me to convey their best wishes to the committee and to thank you on their behalf for allowing me to attend this meeting today.

I am sure you are aware of the size of Australia. It is about the same size as continental United States and demographically we have the population of Los Angeles. You, like me, have travelled all over Australia and are aware of the importance of airlines generally. It can be argued that people do not have to live in rural and regional areas, but the state and federal governments are trying to get people to move out of metropolitan areas into regional areas and, therefore, infrastructure is very important in relation to being able to travel to and from locations. I was in Western Australia last week at places like Geraldton and Bunbury and I would never have been able to do that if not for the opportunity to travel by air.

As you indicated, we have met each other on previous occasions. From a regional airline and regional business investment perspective, working with councils, I have worked in south western New South Wales, based in Griffith, in Central Queensland, based in Gladstone and in far western Victoria, based in Edenhope. I have also been down to Tasmania and undertook similar work, including attendance at the air inquiry which took place about this time two years ago when Impulse Airlines had been flying into Tasmania for one month, I think. In more recent times I have worked for the last 1½ years in the Latrobe Valley.

People living in rural areas appreciate the fact that there are additional expenses of living there, whether it be the cost of freight or food, and that is part of living in regional and rural Australia. It is important also to appreciate that the infrastructure, which includes travel and access, is very important. I believe that regional airlines form part of that umbrella of support mechanisms for regional and, indeed, remote Australia. Regional Australia often feels abandoned by governments, both state and federal, because of where it is. This is obviously manifested in parts of regional and rural Australia which are devoid of RPT—regular passenger transport services. This was particularly felt very hard after the collapse of Ansett.

In my area, we had Hazelton Airlines flying out of Latrobe City to Albury with connections on to Sydney. Of course, we lost that service. During the time that the air services were in administration we had no service at all running in that direction. We were the only airport outside New South Wales where Hazelton were operating. The New South Wales government had been subsidising Hazelton air services, as you may remember, but because we were in Victoria our service was lost. It was not until we managed to get hold of an air service, which in this case was Regional Express—Rex—to fly into our part of the world that we then had a service resumed.

In my original submission, I indicated that the air service was from Melbourne to Merimbula via Latrobe City with some connections on to Sydney. I should indicate that that was an interim service started up until we tried and were able to get an appropriate service. We now have a service six days a week direct from Latrobe City, departing at 6.30 a.m, 7.30 a.m. into Canberra and then on to Sydney through 8.45 a.m. It is an excellent service which runs Monday to Saturday. From Sunday to Friday, you can fly out of Sydney at 5.40 p.m, arrive in Canberra, leave about seven o'clock and be in Latrobe City at 8 p.m. We are very grateful for that service.

My council asked me, as the person responsible at that time for tourism and looking for new business, to find an air service. We immediately set about doing that. As a result, obviously contacts were made with a number of organisations, including Australiawide Airlines, which later became Regional Express. I would have to say, if we had not done that as a council, we would not have got a service. There was no help from either state or Commonwealth governments financially or otherwise. Although I must say that any time I requested a meeting in Canberra of the Commonwealth through DOTARS, or alternatively through the state government, I was always granted a meeting. I sometimes felt I was probably bringing them more up to date with what we were doing than they were able to assist us. I should also add that council had to buy its way in, to some degree, to getting an airline service down in the region. We offered some funding. We also offered to assist in giving them additional funding for advertising. I took that over and we did the advertising ourselves through council.

As far as council is concerned, and I endorse it, I believe that probably the Commonwealth government and indeed state governments would have to understand, appreciate or come to some agreement within themselves as to exactly what regional air services are. Are they a service just like any other service? Are they a lifeline or a community asset that is required, particularly in more remote areas—and, dare I say, even where we are? Are they to provide a type of service so that if people wish to travel for health reasons or for any number of reasons, they have access to that? The other area that we have to appreciate is business travel. People, particularly overseas business people, will not travel and sit in a car for four to six hours, say, to travel from Brisbane to Gladstone to do business and then have to drive back. If they cannot fly

in and out, the only way you are going to attract that business or even talk to the people is to talk to them physically.

The main difference between my original submission to you was the fact that the airline service is still the same company, but it has changed. We are now flying through Canberra to Sydney, rather than through from Melbourne to Latrobe and then through to Merimbula. There is no service via Rex into Melbourne. I should also just briefly add that Island Airlines Tasmania, who I know you are aware of and who are giving evidence later today, fly three times a week from Essendon Airport, just down the road here, to Latrobe City, then on to Flinders Island and Launceston three days a week.

CHAIR—Thank you, Mr Barber. You just clarified the question I was going to ask you when you said that there is no service to Melbourne whatsoever.

Mr Barber—No, none at all.

CHAIR—What is the break-up of those 13 train trips? Is it 13 a day or a week?

Mr Barber—It is 13 return services a day Monday to Friday. It is an excellent service.

CHAIR—Is it a semi-suburban type operation?

Mr Barber—For probably half of those services, there are diesel haul trains with three carriages. For the other ones through the middle of the day there tend to be single-car Sprinter type airconditioned one-carriage trains.

CHAIR—If there are 13 of those, that pretty well obviates the need for a link with Melbourne. Is that the idea?

Mr Barber—Yes. For example, you can leave Traralgon at 7.45 a.m.—as I quite often do—and be in Melbourne at 10 to 10. I can leave Melbourne at half past six at night and be home in Traralgon at 8.45 p.m. The service in itself is quite good. Also, we have a dual carriageway and a lot of it is a freeway into Melbourne. One of the problems is—

CHAIR—What is the driving time?

Mr Barber—Between two and three hours, depending on the time of day. Obviously through the day you can do it in two hours. The Monash freeway does get very busy, and if they are working on it there can be hold-ups. It is a good road. The problem with flying into Melbourne is that you would fly to Tullamarine or Essendon, and then you have to come all the way back into Melbourne.

CHAIR—What sort of aircraft do you have for your service? Is it a 19-seater?

Mr Barber—No, it is a 31-seat Saab.

CHAIR—It is a Saab now.

Mr Barber—It is now a Saab. The original service was a Metroliner, but it is now a 31-seat Saab, which obviously has a pilot, co-pilot and flight attendant.

CHAIR—There is a need in the Latrobe Valley to have this link to Canberra and Sydney?

Mr Barber—Exactly.

CHAIR—It is unusual; I am surprised. Following on from your original submission, I see they need about a 60 per cent loading.

Mr Barber—That is correct. About 65 per cent tends to make aircraft more profitable; about 50 per cent to 55 per cent makes them barely viable to survival.

CHAIR—So it goes Latrobe-Canberra—

Mr Barber—To Sydney.

CHAIR—And then back again.

Mr Barber—Yes, back again that evening.

CHAIR—Is there any service up the coast?

Mr Barber—No. I am in discussions with a number of smaller airline companies to try to get that service replicated. A smaller aircraft, maybe even a 10-seater like the Piper twin engine we fly across to Launceston, would be satisfactory. We are also looking at trying to use the Latrobe regional airport, which is council owned, as a hub, so that smaller aircraft could fly in from that whole area. We are the only RPT registered airport east of Melbourne.

CHAIR—How many flights did you say you have?

Mr Barber—We have six a week.

CHAIR—What about to Tasmania?

Mr Barber—Three: Monday, Wednesday and Friday.

CHAIR—That is through Latrobe?

Mr Barber—Yes, that is through Latrobe. They come from Essendon airport here, through to Latrobe City, which is Traralgon, then down to Flinders Island and on to Launceston. That is a twin engine eight-seater aircraft.

CHAIR—Having said all that—and your submission is very good and clear—what are the points you are making to the committee? Do we need to consolidate services in your area? Is the council having any trouble in the maintenance of its airport? Is it the owner of the airport now?

Mr Barber—Yes. Latrobe City Council owns the airport. A lot of the airports, as you would know, have been passed on from Commonwealth control. Soon we will have to move a non-directional beacon, NDB, because we have Australia's only passenger aircraft manufacturer at our airport, that is, Gippsland Aeronautics, which make a small passenger aircraft. We will probably need to widen the runway eventually. We have an exemption from CASA which allows Saab aircraft to land there. It is not a dangerous situation, but we need to move that beacon because we need some additional parking.

CHAIR—What is the upgrade cost?

Mr Barber—We put in an RAP—Regional Assistance Program—application. That did not get through, I hasten to add, because infrastructure is not allowed under the RAP system. We are now in discussion with the Victorian government to see if we can get some regional assistance funding there. Our terminal is very modern.

CHAIR—This is a very concise and clear descriptive, but I am not quite sure what Latrobe City is asking of the committee or emphasising to the committee. Do you know what I mean?

Mr Barber—Yes.

Mr GIBBONS—At one point you mentioned Gippsland Aeronautics, the designer of that small aircraft. I understand that is the one that has been nicknamed 'the flying ute'.

Mr Barber—Yes, that is right—the Airvan.

Mr GIBBONS—It has an extraordinarily large carrying capacity. I know that one prototype was flying. Have they actually manufactured another, do you know?

Mr Barber—Yes, they have now manufactured in excess of 20.

Mr GIBBONS—Really?

Mr Barber—They have overseas orders into a number of African countries and into Indonesia. I think they are now building 16 for the United States. It is a derivation of the Coast Guard. When I arrived in that area in June 2001, there were 15 employees. There are now 90 and they are looking to go onto a second shift. So it has been an excellent boon for export. Also, if we could ever get a twin engine aircraft out of that type of configuration it would be a brilliant regional commuter aircraft.

Mr GIBBONS—That is what I was leading to. When I saw a magazine article on it, it was up to eight or 10 seats.

Mr Barber—Yes, it is an eight-seater—or you can rip out seats and put about a tonne in them. They actually flew one all the way to the United States, so they had to turn it into what I call a flying gas can. They flew that aircraft all the way to Oshkosh.

Mr GIBBONS—Yes, the big air display.

Mr Barber—That is where they picked up that order. But they have sufficient orders now to run their normal production through to 2005.

Mr GIBBONS—Do you know if they are going to design a twin engine version?

Mr Barber—I am in discussion with them all the time. It is not on the immediate drawing board because they have more than sufficient business at the moment. It fills a niche market where there is no aircraft available. Older aircraft like the old Beavers and things like that are being rebuilt, recycled and re-engined.

Mr SECKER—In one part of your submission you proposed a reregulation of the routes. What form are you talking about here? Is it a regulation of who can go in there?

Mr Barber—The situation as I see it is that there will always be a concern with what I call predator airline activities. In a lot of areas you have a set population. Probably you need a population of 50,000 minimum to operate a small to medium regional airline. There have been cases in the past where a small airline has built up a clientele and established it and then other airline companies have come in and offered crazy prices or heaps of services and as a result of that they have killed the smaller regional airline. I have a concern that that could happen. I understand that, in some cases, charter airlines will fly in with a charter and then they will try to pick up additional flights out, which, of course, can also affect the accredited regional airline.

In some areas, of course, there is sufficient population to have more than one airline. I guess that Gladstone is a case in point and so is Albury and probably Wagga. But in our case, in Latrobe City, we have had to build up an air service basically from nothing—we had to rebuild it. I should add that the service is now marginally viable. We are now flying an average of between 12 and 15 people in each direction per day. When that started off it was four or five. So more advertising and the acceptance that the service is now there as a reality has helped.

I think I talked about the possibility of having some type of subsidisation for air services. I guess that really the Commonwealth government—and to their credit, I am sure that is the reason why we have this committee—need to actually work out in their own minds where they place a regional air service. Is it just a business, like a plumbing business or anything else, that stands or falls or is it a vital service to the community? If it is, I would suggest that, in certain areas—probably in those areas that are even more remote than where our service is—it might be a good idea to provide any shortfall between the number of passengers on an aircraft and the break-even for maybe a period of time to allow that airline to get itself up and running.

CHAIR—How long should that period be, do you reckon?

Mr Barber—I would say for a minimum of six months. One of the problems is—and country people get a bit concerned—an airline comes in and six weeks later it is gone, because it could not stand up. It takes country people—and I say this as a person who has lived in country areas for many years—a bit longer to come to terms with the fact that somebody is going to be around for a bit longer. We have seen fly-by-nighters before, and for that reason it is important that people understand that the service is going to be around. We also looked at what I call the 'Bendigo Bank airline'; we were going to try to build up our own local airline. If all else failed, that was to be the scenario. We have water to the south of us, Bass Strait, and the Great Dividing Range in front of us. In my submission, I gave you some times for driving versus flying to

Canberra. We see ourselves as regional rather than remote. But in remote areas—and I am thinking about places such as Woorabinda and out further west to Longridge and those places—the airline services are definitely a very important part of the infrastructure of the region.

Maybe over a period of time some sort of subsidy can be provided. Whether it is a tax break or something else would be for government to work out. The idea, as I see it, would be for airlines to submit their manifests to prove when there were shortfalls. Obviously, if they got sufficient people on a flight—65 per cent or even 55 per cent—they would not make a claim. We as a council assisted Rex, particularly in the early days when there was a 31-seat aircraft coming in with four or five people on it. Obviously, that is a recipe for going broke, but then through print, television and radio advertising we blitzkrieged the fact that the service was there right throughout the Gippsland region. We have a population base of a quarter of a million people within an hour's drive of our airport.

CHAIR—We might come back to advertising in a minute.

Mr SECKER—You have been talking mainly about passengers at this stage. What about freight? That was one of the considerations in other places we have been to.

Mr Barber—We are now finding interest in freight. At one time, the horticultural industry, which is of a reasonable size in our part of the world, was transporting flowers to Sydney for the market up there. I know from talking with some of the seafood operators that they would like to move seafood. In my discussions with the Tasmanian government—I was in Tasmania before I came here—we even looked at a seafood operation for the Japanese market, flying from northern Tasmania through to Latrobe and then on to Sydney direct. That was another proposed service, and that would have been a freighter aircraft.

Freight really is a very important and integral part of the airline operations, as I am sure you would appreciate, but passengers tend to be the main part. After an airline gets passengers, it can then start to push freight. We are only 150-odd kilometres from the largest seaport in the Southern Hemisphere, so I guess it is not quite so important as far as exporting through Melbourne or even through Tullamarine. But for other areas, such as New South Wales and the ACT, it is a very important ingredient. The flights probably do not help too much, going out very early in the morning and coming back in late at night. I should also emphasise that, as far as a regional air service is concerned, we were interested as a council in taking the country people to the city. In the past, I think some of the regional airlines fell over because they only looked at moving city people to the country. Particularly in our part of the world, if the flight times do not suit—as indeed was the case with the former Hazelton Airlines service—people just drive.

Ms O'BYRNE—What proportion of freight is time sensitive? How much of your freight would have to be flown out by necessity?

Mr Barber—The main area, obviously, would be anything that is perishable. Horticultural products—that is, flowers—is the main one. As you would probably be aware, in Latrobe City we are primarily generators of electricity, and you do not export that on planes.

Ms O'BYRNE—What is the cost of the flight to Sydney on the Saab now?

Mr Barber—The return flight to Canberra, which I am flying next week, is about $298. It is about $340 return to Sydney, but we also have—

CHAIR—That is quite reasonable.

Mr Barber—It is indeed. I must say that our relationship with Regional Express is excellent.

Ms O'BYRNE—That is a non-discounted flight? That is the standard fare?

Mr Barber—Yes, that is a non-discounted flight. I am flying this time next week, so I booked it just on a week in advance. That is the normal flight. We did have a $199 day return to either Sydney or Canberra through the months of January and February, which are quiet times. I should indicate also that Regional Express started a new service in November—which, as I am sure you are aware, is the worst time of the year for domestic services. We needed to do things to sustain it, and that is why we took over the advertising ourselves.

Ms O'BYRNE—Where are Regional Express and your service currently at in terms of through ticketing and relationships with the larger airlines?

Mr Barber—I am glad you mentioned that, because that was a problem I foresaw originally. They have moved on from that now. I believe they are now very close to—if they have not done it already—organising ticketing through both Qantas and Virgin. Interline transfer was a problem. I think the other problem with Rex originally—and I make this is as a comment rather than a criticism, because they were building up an airline from nothing—was that they were really just supplying a transport service like a bus or a train. They needed to also have the add-ons—for example, in the case of Tasmania, holiday packages. They are now into that.

In their time, they have done an excellent job of getting the business up from a standing start to where it is today. I must say that their relationship with us has been terrific. I have probably spent a third of my time over the last year working with potential airlines—anybody who even had almost a cardboard replica of an aircraft I talked to in the early stages—because it was vital that we as a council went out and found them. We considered that that was our job. Any assistance that we may have gotten from either state or federal governments would have been helpful but, really, as far as we were concerned, it was our job as the local council at the coalface of community to go out and do that.

Ms O'BYRNE—We have just come from Flinders Island. One of the significant problems with airlines going broke—Flinders Island has had 17 airlines servicing the island go bust since 1972—is that those airlines amass massive landing fee debts that the airport is unable to recover or do anything about. In Tasmania, they have introduced some legislation—fortunately, we have not had to test it yet—that is supposed to provide some protection against that, because currently you cannot stop a plane landing even if that company has massive debts. What view do you have in terms of the best way of making that work for Latrobe?

Mr Barber—Latrobe City owns the airport and obviously has a budget for the airport. That used to be subsidised to some degree by landing and passenger charges. Part of the deal we arranged with Regional Express—and, indeed, with anyone who was going to fly into the airport—was that we were going to let them fly in and out, at least for the first year, without charge. That was part of the subsidy, as we saw it, and we thought that was vital. We built that

into our budget. That was a bullet that we had to bite. We have a section 86 committee under the Local Government Act which is part of council. So, really, council have picked up the shortfall. One way or another we would have had to have done that.

Ms O'BYRNE—To guarantee the service.

Mr Barber—That is right.

Ms O'BYRNE—You were saying that you are getting about 50 per cent occupancy on the Saab now.

Mr Barber—It is getting pretty close to that now. It is between 12 and 15 passengers. Three or four months ago it was about four passengers. Again, we had an advertising blitzkrieg in January and early February on behalf of Rex. Council are expending $40,000 of our own money to actually undertake that advertising.

Ms O'BYRNE—You talk about a few different options in terms of the financial assistance that you would receive. If you had to pick one, given your current circumstance of a 31-seat aircraft operating on a good time frame with a reasonable cost and an almost break even occupancy, what do you think is the thing that would guarantee the service into your area?

Mr Barber—I could get a number of airlines to fly in if we agreed to subsidise their operations; that is basically the bottom line.

Ms O'BYRNE—So it is a direct subsidy to the operator of the service, not to the airport? You would actually want something for the service?

Mr Barber—Yes, the operator of the service. It is things like giving them free access, which we would have to continue to do. Rex have to pay for their on-ground people that do the check in and marshalling of passengers inwards. For the outwards flight of a night we actually use one of our own employees, who is an airport employee who handles the inwards. That is just a matter of taking baggage off the aircraft. The pilots tie it down for the night. So there are no rebookings of a morning. Rex has an appointed agent who comes out and handles that side of it. That is really the only cost that Rex has, apart from overnight accommodation for a crew of three.

Ms O'BYRNE—How extensive would you see that subsidy needing to be? You talked before about some assistance for six months. On Flinders Island they were saying they would need assistance for two, three, five or 10 years, depending on which submission you looked at. What sort of a subsidy and period do you think would be appropriate to guarantee it?

Mr Barber—We were talking primarily about six months. Having flown into Flinders Island quite a few times, I think the major problem they have there is the fact that the long runway is gravel.

Ms O'BYRNE—We substantially covered the long runway issue in the last 24 hours. As the local member, I have covered it for a few years.

CHAIR—I dreamt about it last night.

Mr Barber—The other problem from an airline viewpoint is that you would need to have what is called a gravel kit fitted to your aircraft, because of the bits that get thrown up. When I was talking with the Tasmanian state government in November last year there was talk about them sealing that longer strip. As you know, their shorter strip is sealed. We have a lot of synergies with Tasmania where we are, including in relation to energy—electricity, gas. It was No. 3 on the survey of where people wanted to fly. You could either fly direct or fly through Flinders Island if we found an airline. We have been very supportive of the local airline, Island Airlines Tasmania, and they in turn support us. They have been of great assistance. There is a vital air link. We are probably almost the only direct air link from mainland Australia, with the occasional additional Essendon service.

Ms O'BYRNE—You probably did not cover what I was really looking for, which is what sort of subsidy you would need. As you said, regional people get very concerned that their services might fall out, that they will have to wait for another airline to come in and then, once again, that that service will be tenuous. What do you think they would need?

Mr Barber—The council or the airline?

Ms O'BYRNE—The service. You said that direct assistance to the service is probably more vital.

Mr Barber—The airlines tell us that as long as we could guarantee any shortfall between the zero and 65 per cent—

Ms O'BYRNE—So it is the occupancy rate.

Mr Barber—they would be prepared to seriously look at providing a service, bearing in mind that it is expensive to get a pressurised 19-seater aircraft, although they are a lot cheaper since September 11 of two years back. There is a tremendous cost in putting an aircraft service in—not only from what we actually see with the aircraft but with maintenance and all the other parameters that are required to get a service up and running. The main criteria we find in talking with the airlines is what we will give them for free, which is usually the landing and passenger service we would charge them. The second is to provide a subsidy so that they will break even and not fall over. That is irrespective of whether we are talking about an eight-seater, a 19-seater or a 31-seater.

CHAIR—One of the things we heard in Tasmania was the difficulty in getting time-sensitive horticulture and fisheries products off the islands—off Tasmania to some extent but, more particularly, off Flinders Island. Did I understand you correctly as saying that Latrobe makes a very interesting hub for that sort of purpose?

Mr Barber—Yes, most definitely. We see ourselves as the hub of that area. Indeed, our sister councils around us—and I know one of them is speaking this afternoon—support us in what we are doing. The possibility of flying from areas such as Bairnsdale through to us as a hub and even from Sale, which is only 50 kilometres away—

CHAIR—Would that go towards the point of the council putting in a cold room or something to consolidate loads into Sydney or wherever?

Mr Barber—We are looking at putting together an airport precinct with our airport and Sale. One of the things we are looking at is what infrastructure is required to hold product until such a time as it can be flown out.

CHAIR—I would like to examine another problem. You have obviously talked to a lot of airlines. The other thing we have encountered, not so much on this trip but on our previous trip—you touched on it briefly—is the on-carriage factor. Qantas, QantasLink and their other affiliates have a ready-made system: through ticketing, electronic ticketing, baggage handling, access to their lounges in airports and all sorts of things—the whole box and dice. Where do you see that going with Rex and Alliance? And, in your discussions, have you found that Virgin Blue are amenable? We get the impression they are not. I would be interested to hear your view on that through ticketing, baggage handling and so on. If you are taking a flight from Latrobe to Sydney, or from Latrobe to Canberra or somewhere, that is okay if it is just that single trip. But someone who is going, for example, from Latrobe to Brisbane or from Latrobe to Cairns, Townsville or wherever—or Perth, for that matter—would encounter another range of difficulties. Could you comment on that?

Mr Barber—Certainly. From my discussions with Regional Express, they are working with both airlines for through ticketing.

CHAIR—Both?

Mr Barber—That is right, yes.

CHAIR—That did not happen in the Ansett days; you were with one or the other.

Mr Barber—You were one or the other; that is right. Where we are is unique, because Qantas would not want to land large aircraft there. They could not land 737s, for instance, and that would also rule out Virgin. So Rex, as far as where we are, are not seen as a threat to either of the major airlines. The other area that is important, particularly flying into Sydney if you are going overseas, is to get your luggage and get it around to the international terminal, which in Sydney, as you are aware, is not like the one here at Tullamarine, hooked up to the other. I think they were also talking with other airlines—it may have been Singapore Airlines—as well as travel agents in relation to through ticketing. We like to push our local travel agents and make sure they get the business, rather than going through the 1300 numbers. They also have arrangements that they can lock into place to assist in that area. Regional Express are working down those sorts of tracks now. It took them a while because they had to take over an airline in administration and turn it to some degree towards profitability. But they are now working very much in that area.

CHAIR—Can you buy a paper ticket from Rex if you were, say, going from Latrobe to Cairns—can you get a through ticket?

Mr Barber—Not at the moment. I have flown primarily on their routes across to Tasmania, but I have not seen anything—and my flight to Canberra next week is a paperless ticket. In Latrobe City, they tend to know who I am.

CHAIR—What about baggage handling?

Mr Barber—They had onward baggage labels but they are primarily to their own 31 destinations throughout the region.

CHAIR—But do Rex undertake to take that luggage to Virgin—who does that?

Mr Barber—I understand that, if they are not doing it now, they are about to, primarily because they now have the terminal in Sydney, which is the Virgin terminal. In the case of anything coming down from up north or across from Tasmania, it is not a major problem for Tullamarine, because the terminals are all in the one building.

CHAIR—Rex would fly into the old Ansett terminal?

Mr Barber—Yes, both in Sydney and in Melbourne—and in Canberra, yes, I think it probably was the old Ansett terminal. It is at the southern end of the existing terminals. They also have their own equivalent of a flight deck room there.

CHAIR—As there are no further questions, I thank you for this very clear and concise submission. We trust that we can come back to you if we require any additional information.

Mr Barber—Feel free. Again, thank you very much. My council appreciates the opportunity of being able to meet with you.

CHAIR—Thanks, Mr Barber.

[9.45 a.m.]

KELLER, Mr John David, Group Manager, Infrastructure, Glenelg Shire Council

CHAIR—Welcome. We will not be requiring you to give evidence under oath but we ask you to understand that these are formal proceedings of the parliament and as such warrant the same attention as would attend to the House itself. I should caution you, as I do all witnesses, that the giving of false or misleading evidence is a serious matter and could be considered a contempt of the parliament. Having said that, you are most welcome. Would you like to now give us, on behalf of the Shire of Glenelg, a five-to seven-minute overview and, for the benefit of my colleagues, would you describe the geographic status of Glenelg and its interest in this inquiry?

Mr Keller—I will try and keep this brief. Thank you for inviting me to appear before the public hearing. Our submission initially was a rather brief one, and I thank you for the opportunity to appear and expand on that. My name is John Keller. I am the group manager for infrastructure with the Glenelg Shire, and it is in that capacity that I appear before this inquiry. The Glenelg Shire owns and operates the Portland airport. The airport is located approximately 14 kilometres to the west of Portland. Portland is located in the south-west of Victoria and it is approximately 365 kilometres by road from Melbourne and 550 kilometres south-east of Adelaide.

Portland is the major centre in a large rural shire that extends up the South Australian border halfway to Warrnambool and north to approximately halfway between Casterton and Edenhope, for anyone who is familiar with the area. It is approximately one-third of the way up the border, I guess. It is predominantly a rural municipality, although Portland is predominantly in industrial and manufacturing as well as being a service centre. The major regional centres of Hamilton, Warrnambool and Mount Gambier are all approximately an hour's travel time by road from Portland, so it that sort of an area geographically. Of major importance to this inquiry is the fact that travel time by road to Melbourne is approximately 4½ hours and by air direct it is approximately one hour, so for me to come here today it was by far and away a better idea to jump on an aeroplane and travel down than to drive the 4½ hours.

The airport and air services are of strategic importance to council and to the shire generally, and consequently council has a great interest in regional air services—for economic development, business and industry and also as a key community service. I will touch on it again later, but one of the most important factors is the flying in of medical specialists to the hospitals in Portland. The council has recently prepared a business plan for the Portland airport, and various sections of that business plan relate to the viability of the airport, which is in turn influenced enormously by the provision of regional aviation services into and out of the airport. The income from those services helps to support the airport to a large extent. Put simply, prior to the collapse of Ansett the Portland airport was approximately cost neutral as a facility for the council to provide. Since that collapse, the Portland airport has been unable to raise sufficient income to meet its operating costs, and it is in that context, together with the economic developments and community benefits that the airport can provide, that the council appears before this hearing.

I will touch on the adequacy of commercial air services. At first glance, or even at second glance, we are well serviced at the moment by air services. It is perhaps that very issue that leads to some concerns that are well set out in our business plan for the airport. We currently have two commercial airlines operating out of the airport—Regional Express and Sharp Aviation. Both operate RPT and regular commercial flights between Portland and Melbourne. It certainly would appear that two commercial airlines operating out of Portland provides a more than adequate service, but the very fact that there are two airlines leads to a great concern for us. That concern is about the longevity of airlines in the industry and the reliance of the industry on passenger numbers compared with the sorts of passenger numbers we have. There was a study undertaken in 1997 by a company called FDF Management. They prepared a report on regional airports infrastructure for the Victorian Department of Infrastructure. That report observed that between 1967 and 1997 a total of 56 airlines flew Victorian regional routes. Of those 56, only 13 still existed, and of those 13, nine had only commenced in the period 1990 to 1997. That gives an indication of how quickly they come and go and the sorts of problems that that might cause.

Portland is a very thin route in terms of passenger numbers. Typically, an airline will commence a service, sustain it for a few months or years and then either discontinue the service or be replaced by another operator. Many of those new regional RPT services are offered by existing charter operations. Sharp Aviation is a good example of that. It initially commenced as a charter operation for the Portland smelter, by contract, and it has now extended into RPT services. The high turnover of service operators suggests a high level of competition. The potential for success is frequently apparent but overestimated, and air service operators constantly test the market. They tend to come and go quickly. At the time of the Ansett collapse, Kendall became a typical case of what may well occur. The difficulty we have is that, while we see a number of new entrants into the market, passenger growth does not occur. Our current loadings are approximately two-thirds of what they were prior to the Ansett collapse, despite a lot of work to try to increase those numbers. At the time of the collapse or prior to the collapse, Kendall were indicating they needed 65 to 70 per cent, which is a figure I have commonly heard. The flight I came down on this morning had six people on a 19-seat Metroliner, and I would expect the Sharp Aviation flight later in the morning might have had about five or six people as well.

CHAIR—On what sort of plane?

Mr Keller—Sharp Aviation operates a Piper. You will have to forgive me, because although I flew aeroplanes a long time ago, I am not quite sure what type it is. It would be a smaller plane, certainly, probably with 10 or 12 seats.

Mr SECKER—Not a Chieftain?

Mr Keller—No, I do not believe so. It might be a Navajo. I am not sure; I would need to confirm that. It is evident that passenger numbers have decreased substantially since the collapse of Ansett. While we have had some improvement we still have not reached those pre-collapse numbers. That leads to an obvious concern for the loss of one or, more importantly, both airlines, and that is what I was alluding to. While we may well have two airlines with excellent service that are competing against each other, it is perhaps a case where competition is almost dangerous. We will end up, if we are not careful, losing both of them.

Touching on airline schedules for a moment, they are of vital interest to council and we have experienced some very good evidence of their importance since the collapse of Ansett and, consequently, Kendall. We certainly see that airline schedules are generally set as a reaction to market forces but they do not necessarily provide the frequency of service that best suits remote communities. While Portland would hardly be called remote, perhaps when it comes to the sorts of things that we are talking about, and the reason for the service, it is remote given its distance from Melbourne and the driving time. At present we are well served. Sharp provides two return flights from Portland to Melbourne daily. That is during the week; it does not provide services on the weekend. In addition, Regional Express operates three flights from Melbourne to Portland, one of those via Mount Gambier, and two flights from Portland to Melbourne daily. So in fact we are well served.

The importance of flight frequency and timing was evidenced immediately after the recommencement of commercial services by the then Australiawide Airlines, now Regional Express, after the collapse of Ansett. At that time, Sharp Aviation had not commenced its RPT operations, and the first service that Australiawide put in was a single daily return flight to Portland from Melbourne. That satisfied passengers travelling to Portland from Melbourne, as the early departure from Melbourne, together with the late departure from Portland, meant a full day in Portland. It did not satisfy people like me coming from Portland to Melbourne, where you had a late departure from Portland and an early departure from Melbourne, so you did not get the day in Melbourne. In fact, if that service were still there I would have had to fly down yesterday to appear here this morning.

Since that time, Rex has gone back to the two flights a day and that provides an excellent service both ways. It is important to council that the service provided allows for the full day to be spent in Portland, because professionals such as medical specialists, business and industry representatives and a number of other people need the day in Portland. It is a service that we require to get those people there for the time, because otherwise they will not necessarily take the trouble of flying, but will drive down and stay overnight. In summary, while the current services to Portland are adequate there is some concern that existing passenger numbers are not able to support the two operators in the long term, and experience certainly tells us that there is a fine line between the adequacy of the service and its not being adequate, and that flight scheduling is of major importance to the service users.

Touching on some policies and measures that we could perhaps look at to assist in the development of regional air services, it appears that the major impediment to the continuation of air services is passengers. Put plainly and simply, they need people on the seats. In fact, there is a deal of land based competition that works against it. Both private vehicle usage and passenger rail, which emanates out of Warrnambool, can be seen as direct competition to it. While it might seem that a four or 4½ hour non-stop drive from Portland to Melbourne is some sort of impediment, if you compare the cost it is a whole lot cheaper and plenty of people would rather drive than fly. Similarly, there is plenty of anecdotal evidence to suggest that the number of businesspeople, holiday-makers and private individuals using private transport or rail to get to Melbourne is in fact much greater than it was in the past.

There might be a number of factors that have contributed to that, including the loss of confidence in flight scheduling that occurred after the collapse of Ansett when the flights were simply not available, although there may be some return to that confidence now as the schedules have increased; and the fact that luggage cannot be directly transferred to the national carrier.

Certainly, a reluctance to use Sharp Aviation, who land at Essendon rather than Tullamarine, is also a factor in the equation. I guess, though, that the main factor would be cost. In particular, there are a number of rail passengers, such as pensioners, seniors and the like, who are influenced by government subsidies available to them. It is certainly far and away cheaper to travel by rail when you consider those things.

The cost of landing fees, taxes and charges impose significant burdens on the operators. They are inevitably passed onto the consumer through ticket prices. If government was able to reduce those costs then the competitiveness of air services as opposed to other forms of transport would be improved and the viability of the air services would certainly be improved. Government assistance in the area of aeronautical charges and landing fees at major airports are also actions that would assist. Perhaps the best one and the one which would have the most immediate effect is the removal of the Ansett levy.

There are many things the council can do. In fact, council is embarking on an expenditure of approximately $50,000 as a marketing exercise for both airlines to try and improve passenger numbers. That emanated from an approach from Rex for a direct route subsidy, which the council was not happy to provide. They saw it as merely propping it up for a time without going to the trouble of putting people on the seats over a longer term. What we are looking to do is draw people back into using the service. Small-scale owner operator services such as Sharp are important although, in our case, it is a difficulty.

CHAIR—I do not want to cramp your style, but we were expecting five to seven minutes and you have been going for 17 minutes now. We do not mind that, except that you are reducing the time that we have to interact with you. Do you think this is more important?

Mr Keller—No, I think probably it would be better to interact. I think we can leave it at that. Suffice to say that the council sees the need, both for economic development and community benefits, for air services.

CHAIR—Let us cut to the chase. You have Rex flying what sort of aircraft?

Mr Keller—They are currently flying Metroliners in.

CHAIR—What did Ansett fly prior to that?

Mr Keller—Kendell flew Metroliners and a Saab at various times, depending on their scheduling.

CHAIR—Was that the only airline at that time?

Mr Keller—That is correct.

CHAIR—Now you have two airlines?

Mr Keller—That is correct.

CHAIR—Like Latrobe, you have spent $50,000 trying to promote the concept of air travel?

Mr Keller—That is correct.

CHAIR—Why do you think your ratepayers are not using airlines as much as they used to? Is it the uncertainty that it will not be there in the future, or the cost or that they have made other arrangements? What is your council's take on why people have shifted away from what used to be the Kendell service?

Mr Keller—I believe it would be a combination of all those things. Certainly cost is one reason.

CHAIR—What is the return fare to Melbourne?

Mr Keller—The fare is around $300 or just over that. I believe that, when we talk about cost, flying down here is very cost-effective as opposed to driving a vehicle, depending on what it involves. It probably involves an overnight stay, because to drive down to Melbourne and back in a day is a pretty reasonable effort—although I have done it plenty of times, I guess. The private individual perhaps does not see the writing of a cheque for $300 the same way that we see it as a business. Perhaps they do not recognise the total cost of driving a car.

CHAIR—Have they put up special deals around January or February?

Mr Keller—Not that I am aware of, no.

CHAIR—You have never discussed that with them?

Mr Keller—No, we have not. Part of it is the cost. I think there was a great deal—certainly we have plenty of anecdotal evidence to support it—of loss of faith in the scheduling after the collapse. It has taken a long time to get that back because it simply did not suit people.

CHAIR—Do I take it from what you said earlier that your council would favour perhaps the state government in each state allocating particular routes to particular airlines or calling for some form of tendering or licensing?

Mr Keller—Yes. Council would certainly favour that.

CHAIR—You would rather have one thing certain—

Mr Keller—Than two uncertainties, yes.

CHAIR—Do you have any services on to Mount Gambier or Adelaide, going the other way?

Mr SECKER—One of the Rex does.

Mr Keller—One of the Rex flights goes via Mount Gambier, but it is generally Melbourne, Mount Gambier, Portland. So to go from Portland to Adelaide requires a drive to Mount Gambier.

Mr SECKER—That has changed. It used to be Melbourne, Portland, Mount Gambier.

Mr Keller—Yes, sometimes they used to go Melbourne, Portland, Mount Gambier. Currently, they go the other way.

Mr SECKER—To what extent do you think the Commonwealth and state governments should be supporting air services in regional areas?

Mr Keller—One of the greatest benefits that perhaps does not have a great cost is simply to get state and Commonwealth officers and employees flying instead of driving to Portland. It seems to me that most officers—we do get a number obviously of government officers attending—all drive. For the life of me, I am not quite sure why that occurs. Certainly our regional centre, on a state basis, is Geelong in most cases, but Sharp Aviation land at Avalon. There are direct links. Two council officers flew down this morning: one on Sharp, as it turned out, and me. We try and use the airline as much as we can, not because we believe it is cost effective but because it simply helps the numbers.

Mr SECKER—That surprises me, because nearly all the state government people in South Australia will fly from Adelaide to Mount Gambier and back. They will not drive down. It is four and a half hours, but they will fly.

Mr Keller—I should not say they do not fly; predominantly, they drive.

Mr SECKER—And they hire a car when they get there.

Mr Keller—All sorts of things. It helps the whole economy—business, hire firms and so on. Admittedly, there are times when there might be difficulties in landing. In fact, the Governor-General even had trouble landing last Saturday, but that is an exception. That is perhaps one of the quickest ways that governments could help. One of the other ways that governments could be of assistance is to look at the Ansett tax, for example.

Mr SECKER—That will go.

Mr Keller—I understand so. The sooner the better. I am cautious on route subsidies because there is obviously some competition. I tend to perhaps favour the view of tendering and some sort of—

Mr SECKER—Regulation.

Mr Keller—commitment to the service, if you like. That would avoid a lot of the comings and goings of airlines and give them some surety. Obviously some sort of subsidisation could occur to match, for example, pensioners and seniors concessions on other forms of transport. There is a range of options there.

Ms O'BYRNE—Most of my questions have been covered. You said that you have competition from rail which emanates out of Warrnambool. So what is the driving time to Warrnambool and the cost of rail to Melbourne?

Mr Keller—About an hour to drive.

Ms O'BYRNE—And how long on the train?

Mr Keller—About three and a half hours.

Ms O'BYRNE—So it is no faster than driving the entire distance.

Mr Keller—In fact, it would probably be four hours by rail—it is a bit longer by rail. I wonder how much direct competition we have, because it would be predominantly pensioners perhaps or lower income people who are using the rail as opposed to driving—people who do not have access to their own vehicle. They are probably the next group on to get onto the airline. However, there is certainly subsidy there that is not matched in the airline.

Ms O'BYRNE—You said in your opening statement that you were going to address access to health professionals.

Mr Keller—Yes. Portland hospital is a fairly major regional hospital and a number of visiting health professionals—specialist medical people—fly in. Don't ask me the range of what they specialise in—I try and keep away from them. They fly in for the day and fly out again. That is a fairly necessary service, otherwise those patients come to Melbourne. There are plenty of people that fly to Melbourne for specialist services as well. Quite often you will find someone on the aeroplane coming down to the children's hospital or something for the day.

Ms O'BYRNE—So the argument is that one of the primary reasons for accessible and timely flights is access to appropriate medical services?

Mr Keller—Yes; both ways.

CHAIR—What is Portland airport licensed to take? Can it take up to 737s? What is the biggest plane it takes?

Mr Keller—No, it cannot take 737s.

CHAIR—It can take Saabs and Dash 8s and things like that?

Mr Keller—It certainly can.

CHAIR—What is the runway length?

Mr Keller—It is currently 1,417 metres or a shade shorter because we have got it cut off while we do some work on the end. We were recently successful in obtaining a grant from the state government for a range of improvement works at the airport.

CHAIR—Is the council having trouble maintaining the airport?

Mr Keller—We have not until recently. There are probably a range of contributing factors. It was cutting about even. The airport is only 20 years old. It was moved there at the time that the aluminium smelter was built on top of or adjacent to the old airport. It has been at the lower end of the maintenance scale. The runway has been recognised as being short or marginal.

Recently—at the time of the Ansett collapse—we obtained a grant from the state government. We have put in about $140,000 ourselves. There are a range of improvement works occurring out of that: extension of the runway by 200 metres, which is being completed now; stand-by jet power generators; improvement in visual aids—we are going to a couple of PAPIs on it instead of T-VASI—and various other bits and pieces; automatic weather broadcast and so on. They are the sorts of improvements that the industry, both Sharp and Rex, are telling us they need. That length of runway is the optimum length a Metroliner needs. There have been occasions where they have had to drop a seat or two in adverse conditions.

CHAIR—You have an advertising campaign to assist the airline?

Mr Keller—Yes, we are about to embark on it.

CHAIR—Does that include some sort of newsletter to all your ratepayers?

Mr Keller—The people in the council are currently working on how that will occur. It will involve print and television media advertising. I am not sure to what extent they will go from there.

CHAIR—Will Rex participate in that with you?

Mr Keller—We hope so. Rex have been trying hard to get their hands on a part of that money. We are very conscious that we spend it across both airlines. We do not want to put all our eggs in one basket. Rex have produced some of their own advertising material. Portland features on one page of a booklet of 12 or 14 pages.

CHAIR—That is not going to stir your local people to use the airline.

Mr Keller—Exactly—it will not. That is why the council is not too keen on contributing to that. The people that will see it will probably be the people that pick it up out of the pocket of the airline, and they are already on there. We want the rest of the world on there.

Mr SECKER—Do you have a local council newspaper?

Mr Keller—Yes, we do, and we will certainly be approaching the advertising through that as well. We have *Community News* that goes out quarterly.

CHAIR—Tell us about freight. Do you have any time-sensitive freight out of Portland, like flowers or certain horticultural products or fish stocks? If so, especially if they go into the international market, how are they handled out of Portland—or your district, for that matter?

Mr Keller—No, we do not. The only thing that could be on the horizon is fish. The fishing industry is pretty strong in Portland.

CHAIR—What sort of fish do you have there?

Mr Keller—We have everything from lobster through to trawl fishing, but there is a large amount of trawl fishing. Most of the trawl fishing freight goes straight onto freezer van transports and into the markets in Melbourne.

CHAIR—Mainly the domestic market?

Mr Keller—Yes, nearly all of it. Lobster and abalone go overseas but they are generally processed, so there is not a need for the immediate flight for the fresh market. That would only be the case if that fresh market were perhaps to develop, although there are not a lot of signs of that at the moment.

CHAIR—What do you see as the main areas in which government should be assisting councils in this area?

Mr Keller—I guess we touched on it before. Perhaps a simple one is to get some people onto the seats—any number of people. Our own advertising is meant to draw people.

CHAIR—Are you suggesting the government should have something like an airline establishment subsidy scheme either for advertising or—

Mr Keller—What I was touching on was getting government's own people on the seats for a start. Perhaps there could be some advertising or promotion of regional airlines on a general basis. I guess we see in many ways the government support for other forms of transport, be they rail or road—AusLink is certainly talking about both those sorts of things—and regional airlines are left out there. In fact, since the government buy-out of regional airports some years ago they have been very much left to the local council or some other community body. To that extent, there is very little or no direct government assistance.

CHAIR—Do you think that, when the federal government handed over the airports, councils' expectations of being able to control them might have been a bit optimistic?

Mr Keller—Yes, certainly to some extent. The buy-outs were pretty good—it was a bit like a hand in a money jar: if you could demonstrate there was a need there into the future you could ask for the money, for example, to seal a runway and have it there. But I do not think councils properly understood the longer term.

CHAIR—The dynamics of running and maintaining an airport?

Mr Keller—Yes. There was short-term thinking but you are in there for a longer term. It depended a little bit were it was. At the time, I happened to be up in Corryong, where there was an airport buy-out, but it does not have a regional air service. That is a different case to Portland. The airport there is important for things like the air ambulance and firefighting and so on. But when it comes to air services there is a much different ongoing need in the long term. I think that generally councils might have been a little bit unaware of where that would lead them—the need to be responsible for the NDB, for example. NDBs might disappear in the future when GIS systems become more prevalent but, nevertheless, it was perhaps not recognised. It was a case of saying, 'That will keep going ad infinitum,' and, of course, they do not.

The other thing that council is trying very hard is to utilise the airport for other things. We recently had an aircraft maintenance operation open up. We were fortunate to inherit one of the old National Safety Council hangars after the NSC went kaput. In fact, that is another Sharp operation—it is another arm of his business—so the two sit very nicely together. That has been a great success. It has only just commenced, but suddenly we have some extra people there and some extra income. It is those sorts of areas that we need to look at, although they are fairly limited around a regional airport, as you might imagine.

CHAIR—As there are no further questions, thank you very much, Mr Keller, for your submission. Please convey our thanks to your council. We trust we can come back to you if we require more information. Thank you for your attendance this morning.

Mr Keller—Thank you very much for your time.

Proceedings suspended from 10.21 a.m. to 10.38 a.m.

MacGILLIVRAY, Ms Lorraine Ann, General Manager, Edge Aviation

CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Ms MacGillivray—Edge Aviation is a consulting and engineering organisation based at West Sale aerodrome.

CHAIR—Although we are not going to require you to give evidence on oath, we ask you to remember that these are proceedings of the federal parliament, and the same respect attends to them as to the meetings of the House itself. It is customary to remind all witnesses that the giving of false or misleading evidence could be considered a contempt of the parliament. Having said that, you are most welcome. I would like you to give a five to seven minute overview of your submission before we break into questions.

Ms MacGillivray—Thank you, Chair. The reason I decided to put in a submission and participate in this inquiry is that I was previously a low-capacity RPT operator, and my partner, who is also my husband, has also previously operated low-capacity RPT in regional areas. Hence we recognise the significant issues we have in this particular part of our transport infrastructure. That is what prompted me to put in a submission. I have concerns that not just our own regional area but probably many regional areas within Australia are not being adequately serviced—or, if some of them are being serviced, they are not being adequately or satisfactorily serviced. Those concerns prompted me to participate in this inquiry.

Edge Aviation, through my partner—my husband—has done much consulting for many flying operators around the country, including a significant number of RPT operators, particularly low-capacity ones, although I have personally done some consulting for some of our larger capacity operators. We are also now responsible for probably 60 per cent of the flying operations documentation that is required in order to hold an air operator's certificate in this country, so on a daily basis we are liaising with not just RPT operators but also charter operators. There is a certain amount of overlap between those two types of operation. That experience and background and our daily interaction with these particular operators have prompted me to contribute something positive, hopefully, to this inquiry.

CHAIR—Tell us a little more about your company.

Ms MacGillivray—There are essentially two sides to Edge Aviation. On one side, we are consultants not just on flying but on all types of aviation operations—we also consult to maintenance and design organisations. So there is the consulting part of it, which includes a very broad array of services. On the other side, we are a CASA approved CAR 35 organisation, so I hold a certificate of approval for aircraft and aircraft component design. So there is an engineering element to the organisation as well.

CHAIR—You do not fly any charter planes or RPT at present?

Ms MacGillivray—We are not flying operators at present, but both of us have owned and operated low-capacity RPT previously.

CHAIR—Thank you for coming. I think you might be able to add a new dimension to this inquiry and give us a bit of a feel for some of the areas where we are struggling. We had evidence today that there are difficulties in getting reliability of service into regional and country airports. There are also questions such as whether it is better to have one licensed operator, like Rex, QantasLink or an alliance, going into an airport and providing two or three flights a day with reasonable reliability, or smaller RPT operators, who are probably former charter operators, sometimes competing on a route. How do you see the landscape of regional and country aviation since the demise of Ansett? The evidence we are receiving is that the confidence of the public has dropped quite dramatically, and that is reflected in the number of passengers being carried. What is your take on this?

Ms MacGillivray—I think that essentially that is true. In our own area down in Gippsland we have some people saying there is not now the demand for regional carriers to support an operator in the area, although we do have Rex now in Latrobe Valley. The operators are there and then they are gone, they are there and they are gone—they are not going to hang around. It is very hard to patronise a service if you do not think it is going to be there tomorrow. That has definitely happened.

CHAIR—How do you hold them in there long enough?

Ms MacGillivray—My experience in running a service—and my service did not run for very long, unfortunately, because I had an unscrupulous business partner—taught me a lot, and I would run that service again if I had the opportunity. People in the regions will use a service that belongs to them if that service can establish itself in the region. I am not saying that operators like Rex cannot survive in places like the Latrobe Valley or that similar operators cannot survive in other areas around the country, but I do not think they have the depth of local knowledge or meet the requirements of our communities in order to sustain a satisfactory service in the long term. I ran my service from West Sale to Canberra whilst Hazelton was running, and that service would have survived because we met the needs of our community. The service was owned and operated locally and the timetable was structured, and was being further structured, to meet the community's needs. I do not think the larger operators always take that into consideration enough for the longer term.

CHAIR—So there has to be that sense of ownership. Even if it is an outside operation they have to engage with the local community.

Ms MacGillivray—I think an operator does have to engage with the local community. That is certainly what came through from all my passengers when I operated Ibis Airlines. Our local politicians used our service and they loved the fact that we knew what they needed. We knew when they needed to go and we knew that they needed to be able to get to Canberra and back in the same day. I understand that Rex is doing that now, which is good, but whether it is going to be sufficient to hold them in the Latrobe Valley for the longer term remains to be seen. There is the capacity issue. In a lot of these regions where larger operators are servicing the area the aircraft being utilised are too high in capacity. Hazelton operated Saabs out of Latrobe Valley and ran them consistently at around 35 to 40 per cent capacity. That is not profitable in a Saab.

CHAIR—What level of capacity does it have to get to, in your opinion, to be profitable?

Ms MacGillivray—In my opinion, you would be looking at around 55 or 60 per cent to break even. So you are looking at 60 per cent and over to make a substantial enough profit to make the service viable. There are very few aircraft that will run at a lower break-even capacity. The most popular and the most common is the Metroliner. The Metro will break even at around the high 30 per cent mark. That would probably be one of the very few. Even with a Piper Chieftain on low capacity you are looking at 50 to 55 per cent to break even. So you are looking at filling five seats out of eight to break even. What I try to say to people is that the capacity of the aircraft is proportionate. It does not matter if you start out with eight passenger seats or if you have 500 passenger seats, the break-even point is usually a similar percentage.

Mr GIBBONS—How many years have you and your partner been involved in the aviation industry?

Ms MacGillivray—My partner has been involved in the aviation industry all his working life. He is an air transport pilot licence holder and he is also an aeronautical engineer. He has been involved in the industry for about 36 years. I have been involved in the aviation industry full time for about seven years.

Mr GIBBONS—So that is around 40 to 45 years roughly in total.

Ms MacGillivray—Yes. I think I got 40 years worth of experience in the last seven years actually.

Mr GIBBONS—You said that you service about 60 per cent of the current RPT providers and the charter providers because your company provides consultancy advice for them.

Ms MacGillivray—Yes, particularly in the field of technical writing. We write operations manuals, maintenance control manuals, minimum equipment lists for aircraft, quality manuals and safety manuals. At the present moment I am actually reviewing the formatting for the QantasLink flight attendant procedures manuals. My partner has been involved in writing operations manuals for electronic warfare for Raytheon.

Mr GIBBONS—It has not quite got that bad in the RPT industry.

Ms MacGillivray—That is just to demonstrate that we provide a wide range of services for a wide range of very different operations.

Mr GIBBONS—This might seem like an unfair question, but you would be well placed to describe the standard of maintenance and, therefore, the standard safety of these providers of aviation services. How would you rate them in terms of those standards? On average, would you rate them as excellent, very good, good, middle of the road or appropriate, bad, very bad or downright dangerous?

Ms MacGILLIVRAY—Is this for the flying operator or the maintenance organisation?

Mr GIBBONS—No, what is the standard of safety in aviation in Australia at this time?

Ms MacGILLIVRAY—I think the standard of aviation safety in this country is good. I do not think that has necessarily evolved out of good regulation, though. I do not think the regulations are really able to accept the credit for our safety level. I know that probably does not make sense, but there are some areas where we are over-regulated, and I do not think that provides us with a framework for increasing the safety of our industry.

Mr GIBBONS—The reason I asked the question is that we had some evidence yesterday that some tourism operators—for example, the tourism operators on Flinders Island—believe that a lot of people do not like to fly in small aircraft, because they have concerns about safety. Do you think the industry needs to sell itself even more—to try and attract more clients by highlighting the fact that it does have, in your words, a good safety record or standard of safety?

Ms MacGILLIVRAY—We are talking now about the difference between the actual safety and the public perception. We cannot ignore the public perception, because they are the passengers—the people we are trying to serve. With the exception of more recently, our aircraft accident history is, I would suggest, exemplary, particularly across public transport, so I do not see how we could say that it is not safe. We have ageing aircraft—there is no doubt about that, and that is one of our significant issues. The perception of the public is, 'Gee, this aeroplane has been around for 30, 35 or 40 years.' Our regulations do not allow us the readiness to replace those aircraft with other suitable aircraft. It has become cost-prohibitive. Our regulations do not allow us to do that, because of the type of aircraft we have to operate on these types of operations.

When we start looking at single-pilot versus two-pilot operations and how those operations align with the seating capacities of our aircraft, what are we going to replace something like the Chieftain with? We do not have anything to replace it with that fits in with our regulations. That is why the Chieftain, with eight or nine passenger seats, is such a viable aircraft. Our regulations require that at nine passenger seats we introduce a second pilot. You indicated, Mr Chair, that you wanted to address some of the regulatory issues, and this is probably one of the most significant ones that place an extreme financial burden on small operators.

CHAIR—Where should the line be drawn if not at nine?

Ms MacGILLIVRAY—We have discussed this in the industry quite a bit. It should be around 15 seats or up near 19 seats. Some aircraft are certified only for two-pilot operations. Obviously, those aircraft have to have two-pilot operations because the configuration of the aircraft means that, ergonomically, things cannot be reached by one pilot; you need two pilots in order to operate it. However, there are many aircraft in excess of nine passenger seats that are certified for single-pilot operations.

Mr SECKER—Can you give us some examples of that, and how many seats?

Ms MacGILLIVRAY—For a regional service, particularly in our region, one of the aircraft that would be ideal, that is a pressurised twin engine turbine aircraft, is the King Air. It is certified for single-pilot operations but we cannot use it because it has over nine passenger seats.

Mr SECKER—How many seats has the King Air?

Ms MacGILLIVRAY—We could probably fit twelve seats in a King Air. There are other aircraft, like the Conquest, that seat 12 to 14 passengers. They are used regularly on charter with single-pilot operations—regularly. There are plenty of big charter operators out of Essendon that use aircraft like that. For example, Australasian Jet use a lot of that type of aircraft. But we cannot use them in RPT because we cannot use them as single-pilot operations.

Mr SECKER—What about the Metroliners? Can you use them with one pilot?

Ms MacGILLIVRAY—As I understand it, some of the Metroliners are certified for single-pilot operations, so that would take us up to 19 seats. I used an analogy in my submission about a bus driver, which I think is very significant. We have long-haul coaches carrying 50 or 60 passengers up the east coast, west coast or wherever, between our capitals—long-haul with single drivers—but we cannot take a dozen, 15 or up to 19 passengers on an aircraft, single pilot, for a one, 1½ or two-hour sector.

One of the issues that I would like to raise in particular about the regulations is that a lot of them, even though we have Civil Aviation Order 83.3, which is for other than high capacity aircraft, are still written around high capacity. Most of our regulations are. Even if you are a flying operator running joy-flights, half the regulations do not apply to or make provision for a Cessna 172 taking one person on a joy-flight. They are just not written around that. These regulations need to be revised to accommodate the low capacity operator. They do not go anywhere near accommodating that at the moment. The seating capacity with single and two-pilot operations is—

CHAIR—Let us come back to this idea of drawing the line somewhere else besides nine. Quite apart from the issue of safety in the cockpit, there is the dynamic of the number of unsupervised passengers. That would have to be a consideration as well, wouldn't it?

Ms MacGillivray—Yes, it would.

CHAIR—If you have an incident, say, with 13 or 14 passengers and you only have one pilot, you could have a dangerous dynamic develop which is less likely to occur, say, if you are under 12 or under nine. Wasn't there a case in Western Australia involving a fly-in fly-out charter flight where there had been some rowdiness on board with the boys coming back on a Friday night or something like that? They all went to one side of the plane and threw the trim out. I cannot remember the exact detail of it, but it was thought that the crash was caused by the lack of discipline in the passenger cabin. Can you remember the incident?

Ms MacGillivray—No. I remember hearing about it but I do not know the details of it. The point that you raise is a good one. However, if you have a two-pilot operation, the second pilot should not leave their seat to stop that. So under the regulations the second pilot—whilst he could do so in an emergency situation and probably justify it—cannot leave that seat. You are talking about a situation in which we need to ask whether we need to have a cabin attendant. There are other regulations governing that.

I will give you an example of how I addressed this with Ibis Airlines. The point you raise is a valid one and it is something that I do not think should be ignored, because there is also a perception about single-pilot operations. Let us take the Chieftain, for example. In a lot of low capacity operations, the single-pilot operator is the pilot, cabin attendant, baggage handler and

ticketing person. He does everything. That places a significant burden on the pilot in a truly low capacity operation. In Ibis Airlines, I addressed this in our organisation by creating a position called duty company representative. CASA tried, in a nice way, to say that I dodged the cabin attendant and the two-pilot operations. Maybe I did but I came up with something that was better, which was that the person in the right-hand seat could leave the seat, because they were not a second pilot. They did not have to be a pilot. However, if they were, even if they were a private pilot, there were some functions that CASA allowed me to have that person undertake. They were first-aid trained, dangerous goods qualified, trained in the use of emergency exits and they looked after all passenger handling. So in a low capacity RPT operation, they took all those other tasks away from the pilot, which freed him to be concerned only about flying the aircraft. That addressed the safety issue that you have raised. I was the first person and, as far as I know, the only person to date who has managed to have approval for that type of position on a low capacity operation. So that addressed all those other issues.

Mr SECKER—When you say 'low capacity', what capacity?

Ms MacGillivray—I was operating a Chieftain between West Sale and Canberra.

Mr SECKER—At the moment, you would not even need that position, would you? You would just need the pilot.

Ms MacGillivray—That is exactly right. I felt in my operation—recognising exactly what Paul has raised about the issue of safety—that there is some benefit, but you are not paying another pilot. There is a significant difference in the cost also. That other position can be used within the organisation for training and bringing up other pilots, which is also beneficial. So that duty company representative did all the ticketing and we had our own baggage handlers, who looked after all the safety. On our proving flight for that operation, I assumed that role. CASA gave me quite a hard time. We had all manner of in-flight emergencies—bomb threats; unruly passengers, such as you speak of, misbehaving in the cabin—and it demonstrated that we could have a low-capacity RPT without having a second pilot, but putting a person there that could deal with all those other things, hence making that low-capacity operation much safer without introducing a second pilot.

Mr SECKER—You are suggesting you could actually do that in a 15- or a 19-seater set-up—

Ms MacGillivray—Absolutely.

Mr SECKER—and you would reduce your costs quite a bit.

Ms MacGillivray—We wrote a training program for our duty company representative, placing quite specific requirements on that person—they had to be dangerous-goods qualified, they had to be workplace level 2 first aid qualified, they had to be trained in using the emergency exits on the aircraft. There was a whole bunch of things—they had to have done wet drills and all of the things that are required if you are a flight attendant for Qantas. We basically placed all those requirements on that person but we took them off the pilot. We freed the pilot up to be doing what the pilot should be doing, which is concerning himself with flying the aircraft, not looking after unruly passengers or helping if someone has injured themselves or requires some assistance.

Mr SECKER—You use the bus analogy and say that a bus must have 65 or 70 passengers before you need two bus drivers. If you only had one bus driver and the worst came to the worst and he had a heart attack and could not drive the bus, you would probably find someone else that could drive the bus or at least get it to the nearest place. In the worst-case scenario for a plane with one pilot, when the pilot has a massive heart attack and drops dead on the spot, what are the chances of finding someone on that plane that can get it down on the ground in one piece?

Ms MacGillivray—The chances are probably not as good as getting someone to drive the bus, although I do not like to think that I would be able to drive the bus either. I do not know.

Mr SECKER—It is okay in a Piper Chieftan with one pilot who has a massive heart attack. They think, 'Oh well, we can let nine people die, but we cannot let 19 people die.' Is it possible that someone could be coaxed down by radio in a Piper Chieftan more easily than in, say, a King Air, a Conquest or a Metro?

Ms MacGillivray—Being a pilot myself, I would suggest that, while some aircraft have significantly different systems and some are more complicated, if somebody had never flown an aircraft before it would be no more difficult to talk them down in a King Air than it would be in a Chieftan. Because of the fact that they have no knowledge of flying an aircraft, I would not see the difference in the aircraft as being a significant issue. I guess it raises the question of where we have that cut-off. Do the 19 people have any more right to live than the nine people?

CHAIR—Isn't it a risk analysis in the end?

Ms MacGillivray—It is, but, if we base it on our safety history, how much of a risk is it? Is it a compromise between the single pilot and introducing another person in the cabin, like the duty company representative that I introduced on my RPT operation without introducing a second pilot, or could that duty company representative be a person such as me, who is a pilot but not an airline pilot? I could manage to get a King Air down if I had to, because I can fly an aircraft. Where is that cut-off going to be? It has to be somewhere.

CHAIR—We are talking about passengers, whether they be charter passengers or RPT passengers. We are still talking about passengers. Where I come from we had Ansett, TAA, Qantas, Southern Pacific and Sunstate. We had a whole variety of airlines through Bundaberg in my day and then we came down to Metroliners and things like that. But I always got the impression that, given the choice of a higher priced ticket with two pilots or a lower priced ticket with one pilot, the public would almost invariably opt for the two pilots.

Ms MacGillivray—I do not believe that is the case in the regions. In regional areas people want a service whether it has two pilots or one pilot, two engines or one. They want a service that can meet their needs. I do not think that mind-set exists as much in the country as it does in the city. There is not that great an expectation in the country. If we are talking about regional operators, we are not just talking about 19 seats or nine. We could be talking about six. We could be talking about low-capacity RPT operations in more remote areas. There might be a region that requires an RPT but only requires six seats on a regular basis. How do we deal with that? You cannot put a 19-seat aircraft or a 38-seat aircraft on in that situation. These regulations are not written to accommodate that.

Mr SECKER—According to what you are saying, the Metro is pretty cheap to run.

Ms MacGillivray—That is correct.

Mr SECKER—They are horrible for passengers—

Ms MacGillivray—But they are cheap to run. They are good for the operators.

Mr SECKER—If you had a situation where you could have one pilot for a Metro for regional areas, they could probably be quite viable and reasonably priced.

Ms MacGillivray—Absolutely.

Mr SECKER—What length runway do you need for a Metro?

Ms MacGillivray—I am not sure. I know that we can operate Metros from West Sale, and we have 1,500 metres. I do not think they would want much less than that.

Mr SECKER—What about a King Air with 12 seats?

Ms MacGillivray—You are looking at about the same.

Mr SECKER—And a Conquest? Are you looking at 1,500 metres?

Ms MacGillivray—Yes.

Mr SECKER—Whereas as a Piper Chieftain can get away with 1,000 metres.

Ms MacGillivray—Yes. But my understanding of this inquiry is that we are talking about regional operations right across the country—

CHAIR—Yes.

Ms MacGillivray—and that does not just mean in our larger regions. We need to look at the situation we have, for example, in Gippsland. Do we need Rex to be operating Saabs or do we only need King Airs or something like that, whether they be single- or two-pilot operations? In remote areas, where we do not need aircraft of that capacity—

Mr GIBBONS—We are doing that. We were on Flinders Island looking at the operation down there yesterday.

Ms MacGillivray—These regulations affect all of those types of operations. There is also the question of whether we are flying IFR or VFR. Should pilots in remote areas be required to have instrument ratings? How often are they going to use them? We were discussing this this morning. They cannot fly instrument approaches at half of these airfields. A pilot has to maintain an instrument rating so he can fly IFR in an area of dead flat country with no navigation aids. We are placing a lot of conditions on some operators that are unnecessary and

are not conducive to them being able to provide a service that meets the needs of their community or region. That is significant.

Mr GIBBONS—Returning to the single-pilot concept and forgetting about the number of seats, I imagine there would be pretty stringent health requirements for medical examinations of commercial pilots who fly RPTs and charter flights.

Ms MacGillivray—That is correct.

Mr GIBBONS—What is required of them under the regulations?

Ms MacGillivray—A class 1 medical, which is required to hold a commercial licence or an ATPL—and, as I understand it, the requirements for an APTL are sometimes more stringent again; some of the medical examinations come down to six months with some airlines, and some airlines place their own requirements on top of the CASA ones—is held every 12 months. The extent of that medical examination is dependent on your age, so it gets more stringent and there are more health standards you have to meet as you get older. I am 45 years old and on a class 2 medical. As long as I can walk in the door, see where I am going and speak to the doctor, I can pretty much pass the medical. That is probably treating it a little bit lightly. Once I am older, I will have to have an ECG and more stringent tests. I think the medical examinations that ensure pilots are fit to fly are fair. The pilots themselves also have a duty of care and responsibility under the regulations to not fly if they are not fit.

Mr GIBBONS—Moving on to another side of it, as MPs we often hear a lot of criticism of CASA. I understand you contract to CASA. I do not want to put you on the spot, but how would you rate CASA's performance in doing what it is supposed to do, in terms of what its charter is: good, very good, excellent or appropriate, or bad, very bad or, worst of all, downright dangerous? That is a very difficult question for you.

Ms MacGillivray—That is a difficult question. In this particular area, I think it is probably verging on bad, because I do not think these regulations are meeting the requirements of today. These regulations were written when the sector times were a lot longer, aircraft performance was not as good as it is now and, probably, people's general health and wellbeing was not as good—a lot of things that have not been factored into these regulations. When people try and get an RPT air operator's certificate, I could not even begin to describe what some potential operators have to go through. I suggest that probably one-third of them would abandon pursuing getting an air operator's certificate because it is too difficult, too convoluted and too inconsistent, with no apparent standardisation.

Mr SECKER—It takes too long.

Ms MacGillivray—Yes, it takes too long. For example, a gentleman retires from a job with Qantas, he is 45 years old and he is living out in the country, which happens a lot. He says: 'There's a need here for low-capacity RPT. I've got 25 years of experience flying with Qantas; I've got a background in the industry.' He embarks on getting an air operator's certificate only to find that all the experience he has counts for nothing. He is up against a regulatory body, and I do not know whether they do not understand the requirements for low-capacity RPT and what is needed in the community, but there is no consistency. You could go from one district regulatory services office of CASA to another and get a different answer every single time.

Sometimes it depends on what side of the bed the flying operations inspector got out of that day or what interpretation he or she may want to place on the regulations.

I do not think it is necessarily fair to, for want of an expression, 'bag' CASA particularly or any of the individuals, it is just that the system is not accommodating this type of operation very well. In fact, it is not accommodating a lot of commercial operations, including charter, because charter operators are not particularly better off—in fact, sometimes they are worse off.

CHAIR—Do you think there should be a rewrite of all of these things?

Ms MacGillivray—I think the regulations relating to charter, as well as to low-capacity RPT operations, seriously need to be reviewed. I do not think they align with the technology we have today with some aircraft, with the short sector times. A lot of the regulations, like flight and duty times for pilots, were written around people flying four-, five-, six- or seven-hour sectors—flying around the country for hours and hours. That is not happening now.

Mr GIBBONS—Going back to the CASA situation, I get some complaints—and I know other MPs have got them—that it is not so much the regulations that are causing the problem; it is CASA's interpretation of the regulations and their complete unwillingness to address concerns from the industry, to the point of being obstructionist. Have you heard that?

Ms MacGillivray—I agree 110 per cent with that comment. Quite often CASA have come back to my partner and me and said, 'You've written a generic operations manual.' Our slightly sarcastic answer to that is, 'They're to match the generic regulations.' The regulation is the regulation, so why should the operations manual change, except for the specific operations of that particular operator? So, if they have a specific way in which they want to conduct their operation—that is an area that is flexible for them—whilst still meeting the regulatory requirement, that is the only thing that should be different between operations manuals. Other than that, they are addressing the same regs. But I could guarantee this committee that if I were to send out six identical ops manuals, with different company names on them, to six different area officers tomorrow I would get back anything from, 'That's a beautiful manual; we don't require any amendments,' to the manual needing pages of amendments and just about needing to be rewritten.

CHAIR—You say there is no consistency within CASA itself.

Ms MacGillivray—There is no consistency in there at all.

Mr GIBBONS—You have been pretty outspoken about CASA, and we have also heard a lot of reports that CASA can almost practise victimisation. Are you concerned about any repercussions for your own operations based on what you have said today? Bear in mind, you are on the public record and everything you say is being recorded.

Ms MacGillivray—We enjoy a very good relationship with CASA because we have to deal with them on a daily basis. I do not think anybody here today would particularly want CASA's job, and I am the first to admit that. It is no fun being a regulator. It is very hard being the aviation police. However, I think CASA could probably have a bit more of a capacity to learn from the industry. More recently CASA have lost their capacity, their ability or their willingness to educate, not just regulate. There is nowhere in the aviation industry that an operator or a

potential operator can go and get educated. CASA run all these forums and things—which are usually held in capital cities, so a lot of regional people cannot get there—and that is great. But if you ring CASA and actually want some help with something, it is difficult to get a CASA inspector who is not on a training course himself, on stress leave or on holidays.

I am speaking quite truthfully here, because we have to ring them every day. We can go through one job but have three airworthiness inspectors or engineers. If one guy has gone, we have to explain the whole engineering process again to another inspector. Then when we go back to him, he is not there, so we are moved onto another one. That happens regularly. I do not know how to overcome that problem or give you some sort of solution to that at short notice—but it is a problem, and a lot of people are very intimidated.

Let me give you an example. CASA have just released the AOC online CD. So you can apply for an air operator certificate—which is not bad considering they did not like generic manuals—and do a generic manual, all online. I am waiting for a copy of the next revision of the CD so I can see how it actually works. It interests me because it might take work off me, as we write a lot of operations manuals. However, in spite of that CD, people are still coming to us and saying, 'Edge Aviation, please do my manual; in fact, could you please help me through my business plan and do all my air operator certificate application,' because the whole thing is just too much. They are very intimidated by it. They say: 'I'm a pilot, I know how to run an operation and I can fly an RPT, but I can't get through all this stuff. I don't know how to handle all this. Could you do it for me?' That is pretty sad. I know that there has been an attempt to overcome this problem, and I commend them for that attempt, but I do not think it is the right solution. I think they need to have more of an open door policy; people should be able to go to them. I do not think they should just wield the axe on operators without trying to educate them.

CHAIR—I am sorry Barry Haase is not here—he is a member of our committee, from Western Australia—although we probably would have had to get you back this afternoon for another hour or something. One thing that has been raised a lot in the context of what we are talking about right now is that, apparently, in the Northern Territory and Western Australia, there is a lot of charter work where goods and the mail are carried by the charter operator but, because of the remoteness of the cattle stations or the small communities, there is a necessity to take passengers. As I understand it, they cannot do that because they are charter, not RPT. They have already been chartered to take the mail and the goods and, therefore, they cannot take a scheduled passenger, so to speak. Is there a need for a special category for that sort of thing—so a charter operator could take a limited number of RPT type passengers, as distinct from a direct charter?

Ms MacGillivray—Going back to that type of operation, it would be questionable whether you could justify it as RPT, for a start. I guess that would be open to CASA's interpretation of it. If it has not been advertised as a regular RPT service and they are not selling tickets—

CHAIR—If the mailman goes out to one station on Tuesday, another station on Wednesday and another station on Thursday and he can carry two passengers quite safely, apparently they cannot advertise that, nor can a person coming in in a chartered aircraft. So you have this dichotomy where you are not RPT—

Ms MacGillivray—And you are not charter.

CHAIR—Yes. Is there a need—

Ms MacGillivray—I think that gets back to what I was saying before—having a look at the regulations and making sure that those types of operations can be accommodated, which they cannot be at the moment. One of the things that I recognise and that I am interested in in this inquiry is the fact that these regulations do not accommodate that. It would be questionable whether that type of operation would be classed as an RPT anyway, because they are not advertising a scheduled flight for passengers. If that is done just under a charter, it is still a commercial operation. Why couldn't someone get on it anyway? They are not selling tickets.

CHAIR—I would probably need to get the detail of that.

Ms MacGillivray—Yes, it would be interesting to see the detail.

CHAIR—I was not ready for it. There are two other areas that I want to touch on with you. We have heard a lot of evidence that most of the aircraft that have been used for both charter and RPT in Australia are 20 years old or older. I understand the youngest aircraft around—I think it was yesterday that we got this evidence—is 18 years old.

Ms MacGillivray—Some of the Chieftains will be around 30 to 35 years old.

CHAIR—Yes. Some of these are going to have to be phased out in the next five years. In fact, CASA have already said that they are not going to be allowed to be used in the next five years. Where does Australia go for some of these 12-, 15- or perhaps up to 19-seat aircraft? How are we going to service a country as vast as this unless there are new aircraft at a price that Australian aviation can afford? What is your take on that? I think it is a very frightening scenario. There is going to be a very limited number of aircraft that are approved for these operations within five years.

Ms MacGillivray—I have not got them here, which is unfortunate, but I was actually given some brochures on some aircraft that were manufactured overseas—they are Polish or European aircraft which had not found their way onto our market yet and which fit that seating capacity and are not high cost. But then we would have to look at those aircraft being certified for use over here. I think that immediately our best options for our larger regions or somewhere that needs around 19 seats are things like the King Airs and the smaller Jetstream aircraft. When I was looking at running my service between west Sale and Canberra I considered even running a Citation at 12 seats. But then we are talking about two pilots, so we would have to justify that sort of cost. However, having said that, availability of aircraft is an issue that is going to have to be addressed.

CHAIR—I have an absolute obsession that these particular committee reports that we are participating in now should not recommend further reports, because it becomes a self-perpetuating thing.

Ms MacGillivray—You might need one, though.

CHAIR—The question I was about to ask you is: is there a need for an inquiry into the issue of what aircraft we are going to need for country airports, be they charter or RPT, in the next five to 10 years and should Australia be getting ready for it now?

Ms MacGillivray—I think so. I do not see why an inquiry like that could not be run parallel to inquiry such as this. This inquiry is obviously going to take into account all of the things that are disturbing our capacity to have a satisfactory air transport infrastructure in place. So the regulatory issue and the type of aircraft we use really are concerns that should be running parallel maybe to this inquiry.

CHAIR—It might be a bit late for it in this one. We are going to have an inquiry—a roundtable or an open square type inquiry—with CASA. We might invite you to participate in that when it comes up. Another area I would like to investigate with my colleagues is the ability of local authorities to run these airports. The anecdotal evidence we are starting to receive is that our airports are being well maintained but at an enormous strain on the local authorities. For example, it is beyond the capacity of Flinders Island to seal that cross-runway on its own. With a rate base of only 560 people, it is just impossible. What is your view on how airports should be maintained and to what standard? Is there a lot of over engineering in some places and not enough in others?

Ms MacGILLIVRAY—I think that is the case with a lot of regional airports, and I can speak for my airport in particular. A lot of our communities inherited airports from the Commonwealth government. The councils were given them.

Mr SECKER—In 1993.

Ms MacGILLIVRAY—While that was a wonderful thing because those local governments own their airports, it has placed a significant burden on that government body to maintain that facility. A lot of communities do not have the capacity to fund on their own such a significant asset and provide its ongoing maintenance. In the case of our airport, it is fairly well maintained and the council's capacity is to maintain it strictly to an RPT standard, but what is an RPT standard? We can have an RPT going into a dirt strip in the middle of Australia, so what is an RPT standard? If it is a standard that is written as per the rules and practices for a licensed aerodrome, that places a significant financial burden on a region to maintain an asset to that standard.

A lot of these local governments do not get any assistance to maintain the infrastructure to the required level for the service that they need. That is a significant concern. It drains a lot of resources from a local government's budget to do that. I do not know what the solution is for that because I did not have a close look at that as part of my submission, but it is one issue that you have raised and it is significant. What do the communities do? How do they support that asset? We have an airport that is used regularly by air ambulance, which is a service we need. It has our bank run go in and out every day, which our community needs. The council feels, obviously, an obligation to the community to maintain that asset so we can be provided with those services. But generally, for the better part, they do not get any assistance with that.

CHAIR—Yes.

Ms MacGILLIVRAY—Where does that money come from?

CHAIR—After the first flush of local ownership, when it gets down to the reality of replacing and upgrading things, have you noticed a deterioration in airports? You must go into a lot of airports.

Ms MacGILLIVRAY—A lot of the maintenance on airports is sufficient to keep them safe, but not necessarily sufficient for them to meet their regulatory requirement.

CHAIR—What about to ensure their longevity?

Ms MacGILLIVRAY—A lot of the communities start looking at whether they need second and third runways and whether they need to put in extra taxi ways. They usually get left with what they have. We cannot maintain the infrastructure we have, so we cannot put any additional infrastructure in place to meet any growth or further development or for a community to push their airport as a potential economic tool. We do not have the capacity to do that. A lot of people in the community too, while they are quite happy to hop on an RPT operation and fly from Sale to Canberra, do not recognise that that asset has to be maintained. It is just somewhere they go to get on an aeroplane. Somebody looks after the airport and mows all the grass, and that is wonderful, but they do not understand the significant cost burden on our local councils.

CHAIR—Is there a case for the reintroduction of Commonwealth ownership of some of these airports, especially those on islands, like Flinders Island, which have a small rate base?

Ms MacGillivray—There may be some airports that fall into that category, but the case may be that the locals are better equipped to understand the requirements of their own airport. Rather than the Commonwealth assuming the full responsibility for it again, maybe the Commonwealth could just assist with some infrastructure, funding or subsidy to help maintain the asset.

Ms O'BYRNE—I want to expand a little on what you were saying in terms of airport ownership and management. You have identified quite clearly the issues that ratepayers have with understanding the necessity to pay for airport infrastructure. What about the ability of councils, as local government bodies who are elected to run a local government area, to manage what is a very highly regulated and intensely progressive industry? How do we best equip councils to manage their role in the aviation industry?

Ms MacGillivray—That is a good question, because that is something that we battle with nearly every other day. The councils, for the better part, try to manage the asset well. What you say is absolutely correct: it is highly regulated; it is very fluid; it can be very high tech and it has some aspects to it that are a little difficult for the layperson to understand. But having said that, some significant attempts are made by some local governments to try and manage it well.

Ms O'BYRNE—I do not doubt that some councils do their absolute best, but it is a specialised industry requiring specialised knowledge.

Ms MacGillivray—It is a specialised industry. It concerns me, essentially, that we have—for want of a better expression—bureaucrats managing such an asset. Perhaps a mechanism should be put in place where they are forced to have some industry involvement or management of the airport. I do not know what the solution is.

Ms O'BYRNE—Is there a role that other levels of government could play in providing specific aviation industry education or is that not going to be enough because of the other obligations? Your general manager tends to be the one who runs the airport as well as running the water supply, the roads—

Ms MacGillivray—And running a whole bunch of other things.

Ms O'BYRNE—and making sure every other service is provided for the community.

Ms MacGillivray—It is definitely asking shire officers or local government representatives to have a very broad knowledge on a very broad range of things. That must be very difficult. Management committees made up of a good proportion of aviation people would be beneficial. For local government to try and manage that type of asset is very difficult. In all fairness to local government, I do not think that they get enough support from the state government or, for that matter, the Commonwealth government. They are left pretty much on their own day to day to try and manage a very significant asset that can make or break our transport infrastructure. That is a significant burden for a local government to have in an area that is, as you say, highly regulated and very specialised. It would be unreasonable for us to expect them to be able to do it to an extremely high standard. It is always going to be a bit part-way. I went to a forum at Latrobe Valley where I spoke to the Hon. Peter Batchelor about this particular issue. He said, 'That's a federal government issue. Go see the Commonwealth people. That's got nothing to do with us.' I said, 'Don't you think it should have? Shouldn't you be representing the local government to the Commonwealth government on this sort of issue?'

Ms O'BYRNE—Do we need clarity on the role in which individual levels of government should be interacting with particular regional airport operations?

Ms MacGillivray—I think so. I made note of that in my submission for this inquiry because I think each level of government is not playing the role that they should play in putting this whole transport infrastructure—

Ms O'BYRNE—Or there is enough grey area around the edges of the roles to create confusion.

Ms MacGillivray—Exactly. I have issue on about a weekly basis with our local government over airport issues. I do not agree with how they are managed at that level, because they are managed by non-aviation people. But having said that, I appreciate the position that they are in and that they are pretty much isolated and on their own when it comes to the management of this type of asset. They do not get a lot of support from the state and are pretty much completely removed from the Commonwealth level.

When Peter Batchelor said to me that this was a Commonwealth issue not a state one, I said, 'Hang on a minute!' I thought the protocol would be that the local government would first go to the state government and say, 'Hey, we've got a transport infrastructure issue,' or, 'We've got an issue with the airport,' or, 'We want to be doing this or that. Can you please represent us to the Commonwealth government on this issue?' That is not what came across to me. It seemed that the local government would have to go straight to the Commonwealth level. I thought there was a missing link in there.

CHAIR—We would like to keep you a bit longer, but we have other witnesses. We would like to invite you to join our CASA roundtable later in the year.

Ms MacGillivray—I would be happy to.

CHAIR—We will send you a copy of the *Hansard* for today's proceedings. If you note any errors, kindly correct them and return them to the secretariat. We trust we can come back to you for further information if that is required.

Ms MacGillivray—Yes, you can.

CHAIR—On that note, thank you very much for your very frank and open submission today.

Ms MacGillivray—Thank you.

[11.37 a.m.]

MOORE, Mr John Brendan, Treasurer and Foundation Member, Champions of the Bush Inc.

CHAIR—Welcome. Do you have any comments to make on the capacity in which you appear?

Mr Moore—I am commonly known as Jack. I appear before you as the acting chairman of an organisation called Champions of the Bush, which is a group of regional businesses inaugurated almost a year ago to promote regional development, instil pride in regional Australia, improve the financial and human capital of regional Australia, and influence government policies that affect regional Australia.

CHAIR—We do not require you to give evidence under oath, but we want you to recognise that these are proceedings of the parliament. Consequently, they warrant the same respect as proceedings of the House itself. I remind you and all witnesses that the giving of false or misleading evidence is a serious matter and can be considered a contempt of the parliament. Having said that, you are most welcome. I will have to leave to take a conference call and my deputy will chair. Please do not interpret that as any lack of interest in your evidence.

Mr Moore—I certainly won't.

CHAIR—To commence, can you give us a five to seven minute overview of your submission? Then I would like to break into questions and some interaction.

Mr Moore—Certainly. Our perspective is that regional business needs better air services in regional Australia. We have not come to that point of view just on the basis that regional people need better services. If we are to have a level of commerce and interaction between the cities and the country, then we need better reach of communication. Therefore we are suggesting that the issue we are dealing with is one for all of Australia not simply regional communities, although they have a greater interest, naturally.

We observe that there has been a decline in recent years in regional air services, particularly in the last two years or so since the collapse of Ansett, but the trend has been going on for some time. I note that the number of services even to major cities has reduced. I particularly note that the services to smaller, more remote towns have come down quite dramatically. I think, for example, that Airnorth—and I understand that they have put a submission to the committee—have withdrawn services from something like 14 of their destinations in the Northern Territory in the last year or so.

It is also worth noting that we live in a world which, I think all of us would agree, is getting faster. We have better communications—15 years ago, when I started my business, we did not have a fax, a mobile, the Internet or anything else—and, as a result of that, there is an expectation of greater efficiency and more promptness. I find that to be pretty much a universal observation. I think that, no matter how good electronic services become—and in the case of my own business, they have been a wonderful asset to us and have enabled us to operate all

over Australia—we still need face-to-face communication. I do not see that ever changing. So we need to be able to transport people efficiently around what is a very large country.

About two years ago the City of Bendigo, as part of a study into its airport, did a survey or had a consultant do a survey of businesses. What surprised us greatly was the number of businesses that commented on the need to be able to get their customers to Bendigo very quickly. They commented that often international and interstate customers would be in Melbourne, but they would find it too difficult to do the two-hour drive to Bendigo and back. There were not just one or two comments—there was quite a large number. That says to me that, if Bendigo is seen by business people as being a bit difficult to get to, then it is far more difficult when we go further inland.

Champions of the Bush believes that government support is going to be necessary in a variety of forms to reverse the trend of declining regional air services. We note that the government has adopted a principle of equality when it comes to telecommunications services and that funds have been applied to ensure that there is a provision of adequate and reasonably equal telecommunications services across Australia. We suggest that ways need to be found to provide a similar level of equality when it comes to air services.

Looking at the issues as we understand them—and I am sure that you will have heard these comments quite frequently—one of the real issues is simply the thinness of the routes that make up the airline network in regional Australia. The route between Melbourne and Sydney is the third most trafficked route in the world, so around the rim of our country we have very large-scale airline services. Airlines are able to use very large aircraft, have great frequency and have become very efficient. Relatively, airfares are far cheaper to run than they were 20 years ago. I can remember going to Perth 25 or 30 years ago and the cost was horrendous. I think that, in today's dollars, we are paying less than we were paying then. So the real cost has come right down. The problem is, though, that that scale can never be applied to regional services, but a lot of the travelling public have become used to a level of fare that is appropriate around the coastal rim that will never be appropriate or possible in the regions.

Another issue that confronts the industry is the cost of upgrading aircraft. There are some taxation issues here that make that even more difficult. No doubt you will have heard the big debate about 10-seat Chieftain aircraft as to how safe they are and why we cannot upgrade to turbo props. My understanding is that the cost of running these aircraft is moderately similar, but the capital costs are immensely different—$400,000 or $500,000 versus $2 million to $5 million. Costs have gone up also in the last couple of years in terms of parts and fuel. That is as a result of a number of factors. Some claim it is the Australian dollar, but that certainly does not account for all of those issues. I can speak with some knowledge on that, because we run an aircraft in our own business and I have seen the costs escalate dramatically in the last two or three years. Certainly, the dollar is one issue, but there are others as well.

Airports are another issue. I listened with interest to the previous witness. Commonly, $10 to $15 is charged per head by councils in many of these regional destinations, which is adding further to the already high cost of regional travel. Taxes in the form of those sorts of landing fees, head taxes, security taxes and so on, I am reliably told, are up to 33 per cent of some of the discount fares in regional settings.

Certainly regulatory costs are a major issue. I know you were told this recently, but I have heard of an instance where an operator in New South Wales wishing to upgrade to a 19-seat turbo prop aircraft spent 14 months getting an AOC. He used a consultant throughout that period. He told me that he was too frightened to work out the cost. Somebody else in the industry suggested that the cost would be way over $100,000. There is no doubt that the cost of regulation is an impediment.

I think we are suggesting that there is probably not any one solution to this problem other than straight out subsidies. I do not think subsidies are a great idea either because they can often lead to inefficiency—however, I do not think that subsidies should be discounted. We do identify a number of areas in which I think government policy can be shaped to encourage regional air operators. My perception and observation is that there are a lot of people out there who are very much in love with aviation and who want to provide services, but they have to be economically viable. As I said, direct subsidies may not be the most palatable way of solving this problem but I understand that they are used extensively in the United States. While I do not understand the detail of the mechanism used there, I believe it relates to providing the community with the subsidy rather than the airline operator. A model like that may be appropriate in Australia.

In the past, we have had regulation in New South Wales in the form of a limitation on licences, which to some extent ensured viability. Maybe government regulation or policy could be shaped to provide encouragement in these ways. I believe strongly on the issue of airports that there needs to be some provision made to councils to help with the maintenance of aerodromes. It is an interesting situation. The local government authorities do not see the need to recover costs from motorists or railway passengers coming into their town, but as soon as people start flying into their town they see the need to recover costs by way of landing fees or head taxes. Most of these airports were either left over from the Second World War or provided under the Aerodrome Local Ownership Program. I do not think it is feasible for councils to provide the necessary level of maintenance without some level of support, and I think logically that probably should come from the Commonwealth. Again, I see it as a means of impacting on the costs of providing these services such that the viability of these services is enhanced.

I believe that tax policy is another area in which encouragement can be provided. There used to be a charge, which I think was called a balancing charge, which meant that as you turned aircraft over the loss or gain on the capital cost could be rolled into the next aircraft. Aircraft are unusual in that they have very long lifespans and they tend to appreciate in value. So, frequently, after depreciation the changeover to a new aircraft resulted in a capital profit. That was changed in 1999. Many operators who have been rolling over these profits for many years are now faced with such a tax liability if they upgrade again that it is a strong disincentive to do so.

In the past also, when the government perceived that industry needed to invest more money in capital assets such as machinery, manufacturing equipment and so on, capital allowances have been used, as I understand it quite effectively, to encourage the upgrade of equipment. I wonder whether that is another area that the government might like to look at and particularly ask the question of whether in a regional setting when it comes to RPT services it is possible to have some sort of capital allowance.

CHAIR—On those last two points, would you like to flesh those out for us and let the secretariat have your views in a bit more detail? That is on the point of rollover and on this current point.

Mr Moore—I would like to. My expertise is not in accounting. I am happy to provide further detail.

CHAIR—Do you have another member of your organisation who could do that?

Mr Moore—We do have other information available. I do not have it with me.

CHAIR—Could you get the organisation, then, to elaborate on those two points and let the secretary have that?

Mr Moore—Yes. I will.

CHAIR—Thank you.

Mr Moore—Finally, in terms of positive recommendations to the committee—because Champions of the Bush is strongly of the view that it is not our role to whinge about services in regional Australia but to be positive and to encourage action that is positive—I do believe that regulatory reform in the form of fundamental changes to CASA is essential. Again—because I am not an airline operator, I do not have the direct contact—if half of what I hear is true, and I believe that would be at least the extent of it, then there is a real disincentive to provide regional aviation services.

CHAIR—I now ask my deputy to lead the questioning on this. Thank you for a very comprehensive report. Are you a pilot?

Mr Moore—I fly extensively as part of our business.

CHAIR—What is that business?

Mr Moore—An advertising business. I am here representing Champions of the Bush. We were the founding members of Champions of the Bush. My business is an advertising and marketing consultancy, specialising in regional and rural clients.

Mr GIBBONS—I have a particular view about aviation in regional areas which goes along the lines that Qantas and, to a lesser extent, Virgin are now flying to the high-volume areas, maximising their potential—this is attributed to Virgin in particular—but playing no role in servicing small, remote locations. Do you think there is a case for government regulation to force Virgin and Qantas to concentrate a little more in the lower volume markets whilst they are reaping the benefits of the high-volume markets? Would that be a fair assessment?

Mr Moore—I think that certainly is. The situation is one where I do not believe market forces can be allowed to continue. If market forces continue, for all the reasons I have already talked about, we will get a concentration of activity and airlines, such as you described, that will not want to go into the regions. I think there is a case for some sort of coercion, regulation,

incentive program—call it what you will—to encourage airlines to look at regional areas and take greater responsibility.

Mr McARTHUR—We just heard the previous witness putting forward a proposition about hubs and using smaller aircraft. She raised the issue of having two pilots for over 10-seat capacity compared to a bus of 60-seat capacity. It seems to me that, rather than having a coercive regulatory regime, it might be better to encourage CASA to look at some of those regional problems. Would you care to comment on that? The previous witness had a couple of interesting recommendations to overcome this difficulty.

Mr Moore—I certainly agree with that. The whole tenet of what I am putting to you is that there needs to be a multifaceted approach to this problem. We need to look at encouraging, wherever it is possible, greater participation in regional air travel by those who would do so—by the operators. I agree with you totally that CASA does need stimulation to be more realistic in its approach to the regulation of regional airlines. Having said that, in no way must safety standards diminish. But there is a very strong view in the industry that CASA is overly bureaucratic, bogged down with red tape, and culturally unable to fulfil the role that it probably has at the present time—as Mr McArthur described—of encouraging aviation.

I believe that in the US the FAA—the Federal Aviation Authority—has as one of its primary policy goals the encouragement of aviation. That appears to not exist in CASA. I am slightly encouraged, though, by reading a comment by one of the senior bureaucrats in CASA recently where they were talking about the rapid decline of low-level aviation in Australia and asking, 'What are we going to do about it?' Perhaps the penny has finally dropped that, if there is less and less aviation, then we will need fewer and fewer bureaucrats to regulate it. I hope that that penny has dropped.

Going back to the point about—I think we have a couple of streams running here—encouraging the larger operators, I do not know how that would be done but I think that would be very worth while. I think of routes such as Melbourne to Griffith. If you want to go from Melbourne to Griffith, unless something has occurred in recent times that I do not know about, you have to go to Sydney and then back out to Griffith. Griffith is a vibrant, growing economy. It is a fantastic area to look at; it is wonderful to see what can occur in regional Australia. It ought to be possible to fly directly from Melbourne to Griffith, because I am sure a great deal of commerce occurs between those two centres. I presume that the major airlines have decided that it is not economically viable, but there must be some way in which they might be encouraged to do so.

ACTING CHAIR (Mr Gibbons)—We took some evidence yesterday on Flinders Island from the people involved in tourism businesses there. One of the problems experienced by the smaller operators is the perception that a lot of people do not want to fly in small aircraft—those with nine seats or less. The perception is that they are dangerous and that they are not regulated or maintained at the same level as the larger airliners. Would you agree with that? If you do, how would we go about addressing that?

Mr Moore—There is a difference in the level of maintenance of the various sizes of aircraft. We cannot deny that the regulations differ. However, if we look at the safety record of regional air transport services, I think they shape up very well. I understand that the perception among many travellers is that of a reduced level of safety if they climb into a turboprop aircraft—I

agree totally with that. Again, it is a matter of becoming used to a higher level of service over the years. If we go back to 20 or 30 years ago, when the Chieftain was introduced and available, we were still flying around in F27s and the like. A real airliner often still had propellers—they do today, but these were smaller, harsher and noisier. There was not the disparity of perceptions of safety between the airline industry and the people on the regional commuter runs, and I think that disparity has become greater. What we can do about that, I really do not know. One thought that came to mind, as you spoke, is that there might be an opportunity to have some sort of certificate, sticker or whatever on those aircraft that indicates to passengers the level to which they are maintained and the regulations which they meet, because those regulations are still very stringent.

Mr McARTHUR—Coming from the seat of Bendigo, you would be familiar with the success of the Bendigo Bank.

Mr Moore—Absolutely.

Mr McARTHUR—Would you like to draw a comparison in the way in which the Bendigo Bank have infiltrated and encouraged country communities to take up banking when the big four were closing branches. They have made a success of it. Would there be a parallel between that and the possibility of small regional airlines taking up the peculiarities of regional aircraft operations?

Mr Moore—I think that is a very good suggestion, and one that had crossed my mind only recently. The model with Bendigo Bank, and I am sure you are all familiar with it, is that they provide the framework, the encouragement and, from the banking perspective, the compliance with regulations to enable a banking service to exist in a small town. But the key to the success of the community bank model is the word 'community'. It is driven by the local community members. They have to subscribe capital. They have to determine that there is an adequate customer base available to maintain the service.

It may be possible to apply a similar model to a small regional setting. If an airline could be persuaded to adopt a similar model—without going into it in great detail—it would seem to be feasible and worth exploring. If ever there were a case for regulatory reform, it would be to encourage that sort of a development. The model that would exist—if we were to apply the Bendigo Bank model, for example, in Bourke—would be one in which there was a local airline, Bourke Airlines, for want of a better name, but the service would be provided under the auspices of a major carrier, which would probably provide the aircraft, the pilots and the skills. But the actual financial management of the airline and the capital would be subscribed to and provided by the locals. It is a very interesting model and one which, I think, is certainly worth pursuing.

Mr McARTHUR—Surely the real problem is that Qantas, for instance, when they talk to you, suggest they are an international airline and that Australian capital city to capital city is really a secondary part of their total operations. So obviously the regional operation is even more secondary.

Mr Moore—Yes.

Mr McARTHUR—So maybe you guys have got to develop a very proactive model, incorporating activists and interested local communities.

Mr Moore—In fact, as a matter of interest, Bendigo Bank is also a founding member of Champions of the Bush and the whole concept of Champions of the Bush came out of a conversation between me, my two partners and Rob Hunt. What you have done today is spark the opportunity to go back and talk that one through in greater detail.

Mr McARTHUR—Telstra CountryWide also have taken on the same concept, that there are differences in rural Australia that need a different approach. It would be my judgment that they have made quite a significant difference in the way in which they have approached country customers and handled the whole problem.

Mr Moore—They have certainly recognised that there are two tribes in Australia—the regional tribe and the city tribe—and, you are correct, they have been very successful in that. Going back to the provision of regional air services, the Bendigo Bank or community bank model would seem to be a more appropriate parallel to look at than Telstra CountryWide. I think they operate in a different manner.

Mr McARTHUR—But they demonstrate the point that it is different and that the major airline carriers will never solve this problem.

Mr Moore—There is no question in my mind that we do have two tribes in Australia: we have a third of Australia living in the regions and two-thirds in the cities. It is an interesting phenomenon—and these are not my words—that as the world gets more global we also get more tribal. Increasingly there will have to be recognition that if we are going to have equitable airline services in regional Australia they will not be provided by the majors, who want to run around the coastal rim and, in the case of Qantas, use those lines to feed their international services.

ACTING CHAIR—I understand the Bendigo Bank concept is probably well worth considering. But the problem also—and it is the same with the stock of aircraft—is with the runways at a lot of these regional aerodromes. If I can use the Bendigo runway in my electorate as an example, it is 1,100 metres, and we found that we could not even get the Prime Minister of Australia to fly in on one of the Falcon VIPs because it was not capable of landing there. If Bendigo is like that, it is the same all over the place. So there is a major infrastructure problem to fix before we even start looking at who is going to take up the challenge of actually flying in to them. Who should bear the cost for that?

Mr Moore—Just on that example, Steve, I am not sure that that is absolutely true. Bendigo is an unusual situation. It is quite bizarre that one of the largest inland cities in Australia cannot accommodate the Governor-General or the Prime Minister in a VIP jet.

ACTING CHAIR—I am not actually all that distressed about that.

Mr McARTHUR—They ought to change the local member!

Mr Moore—I will not comment on that. In terms of your comment about runways, in the main the runways are pretty okay. I am often surprised when I travel around country areas of

New South Wales, South Australia and so on that we do have adequate runways. Fifteen hundred by 30 metres is a base level, and most of these regional areas have those. If you go out into the smaller areas that is not quite so. But I do not think that is the major problem. Your comment was that we might have to fix all the runways first. We would probably have to fix a few, but I do not think that is really the issue. I believe the infrastructure is there in terms of runways.

It is a matter of business viability. We need a situation where there are enough passengers willing to pay a price that allows the operator to make a profit. This is where supply and demand comes in. Above a certain price, people will start to drive or find some other method of doing it. If the cost of running the business is such that the profitable figure is above the threshold of pain, then it will not work. My argument, and the argument of Champions, is that we need to do whatever we can as a community to bring down the cost of providing those services to a point where it is viable to operate them and make a profit.

ACTING CHAIR—What about the runway at Ballarat—do you have any idea what length that is?

Mr Moore—It is about 1,400.

ACTING CHAIR—So it is a little on the short side too.

Mr Moore—Although, having said that, at Ballarat they are not using the full available length. It is an old RAAF airfield and there is more available which could be refurbished and used if that were necessary.

Mr SECKER—State governments all around Australia subsidise city commuters, whether it be on trains, buses or trams. I do not know the exact figures but it could be a billion dollars a year for city transport. Do you think that state governments should also get involved in doing the equivalent for rural areas in air transport?

Mr Moore—I see no reason why there should be two standards, and there are, as you suggest, two standards at the moment. It is perfectly politically acceptable to provide subsidies for urban transport. I think almost all urban services in the metropolitan areas have some form of subsidy; otherwise they are generally not viable operations. We have found that in Melbourne with the privatisation of the trams and trains. It is very hard to make money out of them, if it is possible at all. I would suggest as a regional person and as a representative of a regional organisation that the same standard should apply. It may well be that in trying to find a way around direct subsidies—and I have been trying to suggest other ways in which the government could look at providing support—we are missing out on the obvious, which is that straight subsidies in line with what occurs in metropolitan areas may be the answer.

Mr SECKER—So instead of costing $200 it might cost $150, or instead of $300 it might cost $200.

Mr Moore—Yes.

Mr SECKER—It would certainly make it more viable. If you look at the same thing in bus, train or tram services, if they had to pay the full recovery cost a lot fewer people would

probably use them, making it even less viable. That is the problem I see we have in air transport—the cost reduces the demand.

Mr Moore—That is right. It is a bit of a chicken and egg situation. If you go back to the 10-seater aircraft we keep talking about, most operators suggest that they need about five or six passengers, depending on their cost structure, to make it viable. So if the service fails or is out of action, people pick up other options, prices go up, someone else comes in and tries it and then they get four or five, which is just off the break-even mark. It is a difficult one. Something which would encourage greater numbers is going to improve viability and that is why the major airlines do operate profitably. They have the volume and they can maintain the load factors.

Mr SECKER—You are a treasurer, I see, but not an accountant.

Mr Moore—No, absolutely not, sir.

Mr SECKER—You might not be able to answer this, but have you an idea of what sort of subsidy the state government should be helping with?

Mr Moore—I am not really in a position to put a figure on that. It may be in the order of 25 per cent, perhaps, of current fares but that is just a figure off the top my head. Again, there is a difference between urban transport and the issue we are discussing today. Urban transport is very concentrated. You are dealing with one large operator, in many cases, so it is fairly easy to work out what the level of subsidy should be. If you set out to subsidise regional air services in New South Wales, for example, you would be dealing with quite a number of operators. I am sure it could be done.

Mr SECKER—In fact, it was done in New South Wales. I believe the state government did subsidise the rural transport services.

Mr Moore—They did. And certainly in Queensland there was a subsidy provided.

Ms O'BYRNE—When you talk about low-level regional air services you are really casting a picture of 10 to 12 seaters. Is that what you mean?

Mr Moore—Yes.

Ms O'BYRNE—In your role as Champions of the Bush, as an advocacy agency for regional communities, how damaging to the long-term ability to maintain businesses in regional communities are the continual collapses of small airlines? I am from Tasmania, for your information, and we have had a growing IT industry. When Ansett fell over, many of our IT companies said, 'You can locate yourself anywhere, and we have been able to do that, but you still need to be able to get that flight for those important meetings on occasions.' How do you see, in terms of the constituency that you are representing, the continual collapses of these sorts of service provision and the ability to maintain businesses in regional communities?

Mr Moore—They are very damaging because, as I said at the beginning, communication is essential. That is not just electronic communication but the ability to transport people to get to meetings. That is most important. Let us take the example of Griffith, but there are numerous

other cities around Victoria and all the other states as well that would fall into the same category. Swan Hill might be a good example. There are a lot of businesses there who do need to get out to meet their customers and, conversely, to have customers go and meet them. They do need to get there efficiently and easily. The bigger the state the more difficult it is, because the rail services are virtually non-existent. So we have a choice between driving and flying.

Ms O'BYRNE—We do not have that choice in Tasmania. We fly or we swim!

Mr Moore—I appreciate that. If that is the case, the choices are far apart. You are talking about hours and hours of travel. In Queensland, 10, 12 or 15 hours of travel is not uncommon, and you are not all that far away from Brisbane even at that point. So the choice is to drive or fly that distance. The increasing costs become quite severe. If you are a businessperson in one of these more remote locations and if you have no choice but to drive, the costs in terms of time, accommodation, meals and lost productivity is quite immense. The provision of aviation services is, as I see it, very important for the viability of regional businesses.

Mr McARTHUR—Have you made any representations to CASA on a couple of bits of evidence that we have been presented with on the charter versus regular transport operations on which CASA are now suggesting they will introduce regulations that will make both of those operations about the same in terms of a regulatory regime? With regard to the two-pilot issue that a previous witness mentioned—which is very significant in this region—have you made any representation about this organisation to CASA? Have you said, 'Let's have another look at this'?

Mr Moore—We have not but we have a meeting coming up shortly and that is something that we will be looking at.

Mr McARTHUR—Will you make some quite formal representations?

Mr Moore—We will.

Mr McARTHUR—It is my understanding that CASA are still open to comments on this new set of regulations.

Mr Moore—Yes. What you are saying is very true. The regulations have been plucked from elsewhere. In the main it seems to be from Europe. As I understand it, the industry generally would much prefer it if they were to pluck regulations from overseas—to pick up the American regulations. That seems not to have been the case; the regulations are quite draconian. I am told that CASA has employed nobody except lawyers in the last couple of years. I cannot swear to that and I appreciate the risk of making that assertion, so I underline that it is something that I have heard. But I hear frequently that it is a lawyer-driven organisation to a very large extent. My understanding is that there were three lawyers in one department; there are now 21. If that is the mind-set that is driving these regulations then we will get convoluted, complex and very negative regulations.

Mr McARTHUR—It may be that the regulatory regime may be the biggest impediment to maintaining a regional airline.

Mr Moore—Yes. It is certainly a major component—

Mr McARTHUR—It might end up not being the financial arrangement but just this continual barrier of requirements, for example on freight and passengers. We are hearing other witnesses talk about that in some of these smaller groups: that they cannot have the combination that they used to have of freight and passengers—and so it goes on. The regulatory regime is reflecting the major airline routes and has no relevance to the smaller regional operations.

Mr Moore—I think that is true. I hear that from operators who I have talked with who are running small airline businesses. The recurring theme is the difficulty of doing the business. 'It is just so damn hard,' is what they are saying. One guy recently said, 'If I didn't own the aeroplanes I would never go and buy any more.' They are challenged all the time by the need to meet regulations. I did hear the previous witness talk about the lack of support and help. Again, I hear frequently as I move around the aviation world that the general view is that in the good old days—and I know our memories are always positive of the old days and are not always terribly accurate—there was a great depth of experience at CASA, and that experience was very readily available. When the experienced flight operations inspector came into a small airline, he was willing to provide guidance and assistance. The attitude now seems to be, 'We are the regulator, we are the policeman; it is not appropriate for you to do that, so just go and look, and don't say anything.' I think that is sad.

Mr McARTHUR—We would say that unless an organisation like yours put up some arguments CASA will continue to operate in that manner.

Mr Moore—I take your point. As I said, there is a meeting coming up and I will certainly undertake to ensure that our submission goes to CASA.

ACTING CHAIR—Thank you very much, Mr Moore, for your very worthwhile contribution. Could you check with Hansard before you leave in case you have used any names that need to be confirmed. You will be receiving a copy of the *Hansard* of your submission. Could you check that for accuracy and report back with corrections. If we need to get some more information can we contact you in the future for assistance?

Mr Moore—Absolutely.

ACTING CHAIR—I remind you that you said you would have those two matters addressed that the president raised with the chairman.

Mr Moore—I will.

ACTING CHAIR—Thank you for your contribution.

Proceedings suspended from 12.16 p.m. to 1.11 p.m.

DUBOIS, Mr Michael, Chairman, New South Wales Division, Australian Airports Association

FORTE, Mr Andrew, Chairman, Western Australian Division, Australian Airports Association

KEECH, Mr Ken, Chief Executive Officer, Australian Airports Association

MARTIN, Mr Paddy, BEM, JP, Chairman, Tasmanian Division, Australian Airports Association

McARDLE, Mr John, JP, National Chairman, Australian Airports Association

McDONALD, Mr Don, Chairman, Northern Territory Division, Australian Airports Association

PIPER, Mr David, Deputy National Chairman, Australian Airports Association

WATKINS, Councillor Bill, OAM, Chairman, South Australian Division, Australian Airports Association

CHAIR—I reconvene the meeting of the House of Representatives Standing Committee on Transport and Regional Services in their inquiry into regional commercial aviation services and maritime services to Australia's populated offshore islands. We have been meeting extensively, especially over the last three days, in Tasmania, on Flinders Island and here today in Melbourne. Further sittings will occur in Canberra and in Adelaide. The executive of the Australian Airports Association have been joined at the table before us by representatives from some of the states for the purposes of giving evidence.

Mr McArdle—Mr Chairman, we have our divisional chairmen with us today from all of the states and territories of Australia. We have apologies from the ACT and from Queensland. For that reason I will be presenting the comments from the Queensland division. Principally, the representatives will give the views of their member airports and organisations from their own respective state and territory.

CHAIR—Gentlemen, although we are not requiring you to give evidence under oath, I need to caution you that these are formal hearings of the parliament and they warrant the same respect as proceedings of the House itself. The giving of any false or misleading evidence is considered a serious matter and could be taken as a contempt of parliament. Having said that, I welcome you all to the table. I understand that Mr McArdle will make an opening comment and then the others will give us a strict two-minute overview. Please make it two minutes because your time here is valuable. You can make as many statements as you like, but if we run out of time on questions the whole thing will be an exercise in futility.

Mr McArdle—Thank you, Mr Chairman. The Australian Airports Association sees aviation as a major economic driver for the economy and wellbeing of Australia as a whole. We have for many years been encouraging government to consider the merits of a national aviation policy. We feel that, if the terms of reference of this august body had been extended to incorporate that,

a lot of the issues that we have on the plate could have been adequately addressed. Individually, we will raise a few of those issues with you. With your good graces, I will move ahead and give you Queensland's views, and then we will move to each other's state division.

Air services are an essential mode of transport to regional and remote areas of a state as large as Queensland. Following the transfer of ownership of regional and remote airports to local owners under the ALOP scheme and the deregulation of domestic aviation by federal government, there has been a significant transfer of responsibility for maintenance of aviation services and infrastructure to regional and remote airports.

In Queensland, the state government subsidises a number of strategically important air routes. These subsidies total around $4 million per annum. Since the transfer to local ownership, maintenance of safe and efficient airport infrastructure has been a challenge for many remote and regional communities. In the case of Queensland, the state government has a program focused on improving the infrastructure at a number of regional and populated island airports. While this investment has gone some way towards the maintenance of critical airport infrastructure, the transfer to local ownership has significantly reduced the pool of affordable expertise in airport operations and maintenance.

It is critical for the sustainability of air services to these communities that airports are maintained and operated effectively and safely. For example, the Torres Strait Regional Authority, which operates the Horn Island airport, has not been able to attract a suitably qualified airport manager with the funds that it has available. In any review of regional commercial aviation, due consideration needs to be given to the maintenance of airport infrastructure. While government subsidies are available for selected air routes and airport infrastructure development, the lack of subsidies and profitability of such airports makes finding suitable management resources extremely difficult. Queensland contends that the current review needs to address the issues of safe, secure and efficient operation of regional airports. Thank you.

Mr Piper—I am an instrument-rated private pilot and fly a V-tail Bonanza. I am particularly underscoring Mildura's representation which was made to you earlier. They withdrew from appearing today simply because they felt that I could underscore their submission and would save you some time.

In general, the state of Victoria, because of its shape, size and distances, does not have a significant RPT level of service. So we are more concerned with the effects on regional aviation, which is generally described as those people engaged in charter operations. It is of concern to us that in Australia, once you move outside the major city links and the operations of the two major airlines and the internationals, we do not have a vibrant aviation service at a lower level. So the questions are: why and what are the impacts on those operations?

Significantly, we believe that the actions of the regulator, particularly in determining levels of maintenance and the 'one rule suits all' exercise, are a major deterrent, particularly for small charter operators, who sometimes operate on a regular basis and then are determined by the regulator to be actual RPT operators, moving into a much more expensive regime.

We believe that the activities of various governments and local governments with regard to town planning are a big impediment to airport operations and therefore to the operations of

charter operators. We are concerned about the airspace protection around airports. We believe that tax and depreciation matters need to be looked at to make it simpler and easier for services to be started and maintained.

We are concerned also about the social implications of the level of service which is now available to our communities. That level of service is not as good as it ought to be considering that, compared with, say, the United States of America, we have much more friendly terrain, much better weather and a greater level of traffic density operating in our airspace, yet we do not have a vibrant industry servicing our remote communities or even our regional communities. So all those things need to be looked at.

There is a level of overregulation. There is a complexity of regulation. If any of you attempt to read the appropriate civil aviation orders dealing with recency of pilot qualifications or indeed, say, duty times for pilots, you will find those regulations are almost incomprehensible. So there is a level of overregulation and complexity. There is, respectfully, political timidity in dealing with the situation, particularly because of the safety culture which overshadows all aviation activity. I make a comparison with regard to the recent dreadful rail accident in New South Wales, which has not generated anywhere near the sort of emotional heat that is generated when there is an aviation incident.

In closing, within the aviation industry there is the general feeling that the regulator would be happier if all our flights were grounded on the basis of that point: they would be able to achieve perfect aviation safety. I think we should have a wry smile at that. Thank you very much.

Mr Dubois—I am the New South Wales divisional chairman and the Airport Manager of Tamworth City Airport. I currently represent 68 communities from regional New South Wales in relation to this submission. Fifteen years ago in New South Wales air routes were heavily regulated and subsidies were provided by the state government for those particular routes. Most regional centres, including some of the smaller areas, had F27 turboprop services into Sydney airport.

In the early 1990s, this regulated, subsidised system was replaced by managed competition to the regional centres, with some of the smaller areas—those that had fewer than 27,000 passengers—continuing to be regulated to a single operator, although the subsidies were declined. Under managed competition there was reasonable growth in the number of airline passengers in those regional centres. However, one limiting factor was the tendency to grant licences for only a three-year period, so it was difficult for airlines to introduce equipment and amortise the cost of that investment.

In the late 1990s, managed competition was replaced by deregulation in New South Wales. However, ports that had fewer than 20,000 passengers continued to be regulated to a single operator. Deregulation resulted in growth initially in the regional centres. However, the level of competition could not be sustained and that resulted in the demise of most airlines. Airports suffered considerable losses in terms of their revenue streams, and some ports ended up with a simple monopoly. Some of the lesser ports have now lost their services altogether, the airlines claiming that they are no longer viable to continue to operate. Their viability, I believe, is in question, because I do not think the airlines provided the services that met the needs of the community. If the needs of the community are not met, people will not use those services as a result. Communities in New South Wales should be entitled to an air service, whether it be a

hub-and-spoke operation into a major regional centre and then on to Sydney, simply because they need access to Sydney for a variety of community needs. Thank you.

Mr Forte—I represent around 30 aerodromes in Western Australia. I am also the operator of Forrest Airport on the Nullarbor, one of the more remote aerodromes in Australia that have an aviation position. On behalf of our elected members in WA, the three levels of government in supporting and assisting the development of regional air services is the focus of our paper.

The provision of a reasonable level of air service is what WA regional communities continually ask for. Airlines in a deregulated environment will choose to fly the routes and schedules that economically provide them with the best returns, and that is perfectly normal. But the dilemma for the airlines is that they receive no incentive to do otherwise; that is, to embrace the risk of flying those marginal routes. Regional communities are at a loss as to how to achieve an improved level of air service.

In WA the government does subsidise some low-level routes. It is generally a partnership between the state government, the local airport operator and occasionally community bodies. However, the state government's involvement does not appear to be subject to any set of objectives, marketing or oversight actions involved in the use of these public moneys; rather, it seems to be a temporary political involvement. Nevertheless, the WA government has recently completed a review and assessment of the effectiveness of air services in Western Australia, which I will table a copy of. It outlines policies to guide them, and at this point they are considering that. One particular recommendation emerging from this states:

It is recommended that the Federal and WA Governments engage immediately, both at the Executive Government and 'officials' levels to work closely in the development and coordination of policy for international, interstate and intrastate aviation. It is desirable to have a federal aviation strategy which addresses the issue of regional aviation, delivering some certainty of regulatory outlook for states, consumers and airlines alike.

This recommendation accords with our case for state and federal cooperation to oversee and provide structural solutions for stability in commercial regional aviation. However, for governments to correctly manage this nationally important issue, they must have a very good understanding, in our view, of the technical, economic and dynamic issues encountered by the industry. That is an area where the Australian Airports Association is prepared to offer its support. Air transport operational issues are complex, and a matrix of views, in our opinion, must be sought from various experts, such as those in the fields of airport management, transport economics and airline operations.

Further, it is our view that it should be in the interests of all tiers of government and industry to work together on making the right decisions using the best advice available and sharing advice with those communities who find themselves disadvantaged through inappropriate standards of air service. Rational discussion and transparent outcomes will then be accepted by the respective communities. With regard to the model of support provided, each state appears to be intent on doing it differently, probably with good advice, but the Commonwealth does need to be across this change, in our view.

In conclusion, it is the WA division's view that assisting and developing regional air services requires a national focus due to the serious financial impact the loss of air services has on airports and the communities which they serve. We ask for valuable experience and knowledge to be shared across all tiers of government, the industry and communities, and not duplicated;

and we ask for solutions to be effected through a participative approach with policies structured to suit. Thanks for your time.

Mr McDonald—Good afternoon. I am the General Manager of Alice Springs Airport, and I am here today representing our seven members in the Territory. Air services are vital to the economic and social wellbeing of the Northern Territory. This is generally because of the very large distances and the mostly non-all-weather roads. Therefore, suitable aircraft and aerodromes are essential. With respect to aircraft, it is understood that income tax changes in 1999 to capital depreciation rates have impacted on the viability of operators, particularly in deciding to upgrade to modern turbine-powered aircraft types. Therefore, from our point of view, smaller operators with less efficient equipment can become financial liabilities in respect of the payment of aerodrome and landing fees.

With regard to airports, there are very few RPT standard aerodromes amongst the very large number of busy airfields in the Territory. Importantly, small communities cannot afford the increasingly high standards required by CASA to support viable air commuter services, like carrying passengers on mail runs. Historically, the federal government provided assistance to develop a vibrant airport and aviation infrastructure. Now they need to be more proactive with the remote area service subsidy scheme and community service obligations rather than just leave it to the market to work out the situation.

With respect to the terms of reference, our members in the Territory tend to consider that the level of domestic air services is generally adequate but, importantly, they lack competitive and affordable pricing. Members' airports are largely used as hubs to remote communities and mines, often with services conducted by some very small operators. While the NT government does provide some minor airfield infrastructure support to remote areas, members receive no external subsidies. Thank you for the opportunity to speak.

Councillor Watkins—I would like to give you a brief summary of the statistical data of the eight regional RPT airports in the South Australian division of the AAA, which by their own choice includes Broken Hill. The annual passenger numbers are 312,700, with an estimated annual income of $2.1 million. The total moneys owing from the Ansett collapse amount to $84,200, and at the time the amount outstanding beyond the trading terms with other airlines was $89,200, which, at the time of the Ansett collapse, left us with a debt of $173,400. Similar figures relate to Adelaide Airport Ltd, with 4.4 million passengers and $21.5 million in income. They were carrying a $750,000 deficit from the Ansett closure, along with the $250,000 outside of the trading terms of the other airlines. This means that the total possible exposure for South Australian airports at the end of any month—but in fact it would always be two months—is two times $2 million, which is $4 million, plus the $0.34 million which was normally outstanding.

I do not contest the right of the administrators under the current arrangement to claim the passenger levy which is distributed to the creditors. But it goes against the intent of the agreement that the regional airports had with the Commonwealth in their original handover. The passenger levy was to be for the sole use of the maintenance of the airport at which it was levied. Many regional airports are already subsidised by their local communities, and unless some form of legislation protects this revenue passenger levies will escalate to cover the risks. And it is not if, it is when. As the moneys outstanding beyond trading terms are still a concern, the repercussions of the Whyalla Airlines disaster are imminent and the ongoing effect of

September 11 has not fully flowed on to regional Australia. This will lead to the ideal of social equity for the residents of regional Australia being further eroded. Thank you.

Mr Martin—I am from Tasmania. I am a director of the Port of Devonport Corporation, which controls both port and airport operations. This report is compiled personally, although comments have been circulated amongst my 20-odd state members. As you have already covered the islands, I will not touch on that issue at all. I should mention, though, that we get wonderful support from the Department of Transport and Regional Services, and it may be of interest to you that the Antarctic division are now very active members of ours, with one major runway already completed and two more under way.

The most important feature that I want to point out to you is that, with no road infrastructure, obviously air and shipping transport are of vital importance to the whole state. Naturally, commercial regional aviation services and transport links are given the highest priority throughout the state. The importance of transport links is emphasised by the fact that 75,000 passengers used the twin ferries in December-January, and that figure has already been exceeded in January-February, and the projected yearly figure has been reassessed to over 650,000. The point I wish to add is that, despite the loss of passenger flights throughout the year, airports also experienced quite noticeable increases in passenger numbers coming up to the end of the year.

It was most disturbing to read a local report on the CASA meeting on 14 February. It was copied from *Flight Safety Australia*. They issued a report on safety precautions and, after thoroughly inspecting the various airports throughout the state, I believe every facet of their concerns has been very rigidly accepted by the state airports. In fact, passenger safety is of paramount importance to them all. Further, to the best of my belief after inspection, I am not aware of any airline that does not enforce CASA's instructions. We also conduct one- or two-yearly airport employee courses, fully approved by AAA, covering aerodrome inspection and reporting officer and work safety officer workshops, with healthy numbers attending. Tasmania, I believe, vigorously rejects the report that local and private operators do not give great attention to airport efficiency. Indeed, at a recent conference headed 'the necessary link' outstanding and most experienced speakers from the state airports were quite unanimous in their support of the present system.

Finally, I have here, if anyone wishes to see them, copies of the report on Bass Strait air transport prepared by the Legislative Council of Tasmania select committee and also the executive summary report. Thank you.

CHAIR—Did you want to table that as well?

Mr Martin—No; I said I have them here if anybody wants to see them.

Ms O'BYRNE—I think the select committee report was tabled on Monday.

CHAIR—Western Australia had a document too.

Mr Forte—Yes.

CHAIR—Mr Forte, do you want to table that document?

Mr Forte—Yes.

CHAIR—Will one of my colleagues move that the document entitled *Review and assessment of the effectiveness of air services in Western Australia*, from Mr Forte of the Western Australian division of the AAA, be accepted and taken into the record as an exhibit?

Mr GIBBONS—I so move.

CHAIR—There being no objection, it is so ordered. Mr Keech, do you want to make any operational comments at all?

Mr Keech—No, I do not want to eat into what is very valuable time, so I will not add any comment.

CHAIR—Mr Piper, I presume you were talking about CASA when you were talking before about regulatory bodies?

Mr Piper—Yes, I was.

CHAIR—We will be holding a forum later in the year to which we will invite one of your number—it will not be the whole seven, I can assure you, because this will be a very tightly controlled operation. We may invite you, or someone nominated by the national body, to join us on that occasion for a round table discussion we will be having with CASA on all these issues.

Coming back to the issue in question, what are your views on the condition of regional and rural airports? Do you believe the councils, who are in most cases the owners, are keeping up with the level of maintenance that is required? If not, what solution would you propose to the committee? Who would like to take that question?

Mr McArdle—If you do not mind, I will provide an answer, and if any of my colleagues wish to add to it they may. CASA has a fairly robust auditing program of licensed airports and in that regard would keep the airports fairly up to speed with the standards.

CHAIR—I think we understand that. The question did not have in it an inference of lack of safety, but do those airports have the ability to be maintained at the current level? Having regard to the fact that all these airports got reasonable amounts of money from the Commonwealth at the time of takeover, some have husbanded that money very carefully and others have not, and we are looking now at major infrastructure problems and councils with small rate bases not being able to handle them, what is your take on that?

Mr McArdle—Mr Forte owns an airport. I might defer to him.

Mr Forte—I also wear a second cap: I am an airport consultant. I would suggest that airport operators are finding it difficult in the regions, particularly those without a scheduled service, without a regular air service, because of the cash flow that is generated by the facility. General aviation alone airports are probably the worst hit, and those on the very low level of RPT are the next tier.

With regard to securing adequate funds to maintain their facilities, it is my observation that there are no set federal grant programs specific to airports that they can access funding through. The state of Western Australia certainly has generated some funding programs, and indeed other states, I understand, have done the same. Does that answer a little bit of your—

Mr Keech—Could I just butt in there, if I may. A lot of rural and regional communities around Australia are doing it hard at present for a variety of reasons: councils are doing it hard, there is the impact of the drought—a lot of issues are impacting on local communities. The local shires and councils that own and operate airports are having to find revenue because they do not have access to income-generating revenue streams as such. So they have to find revenue out of their rate revenue to maintain and fulfil their statutory obligations to have a certified aerodrome that is operational. A lot of ratepayers who are paying for that particular airport facility may never either have occasion to or choose to use the airport facility and do not necessarily understand the community service obligations that that facility fulfils, such as magistrates, medical, mail—you name it. Many communities are reliant on air services to fulfil their own local obligations, and I think we need to be mindful of that.

Mr McARTHUR—If you were able to rewrite history in relation to the ALOP scheme, what would you do?

Mr Keech—I have been on record saying for quite some time that my personal view is that the ALOP scheme was the greatest con job of all time.

Mr McARTHUR—Would you like to add to that a little?

Mr Keech—I think it was all very well for the government of the day to hand over the airports to the local councils and shires. It might have seemed a good idea at the time, and there was some money associated with it at the time of handover. But, by and large, it was handed to people who did not necessarily have the experience or the expertise to manage the facility and to develop it.

Mr McARTHUR—What would be your recommendation to government now, then? What would you be suggesting?

Mr Keech—I do not suggest by any stretch of the imagination that they take the airports back, but I think there ought to be recognition for special cases—and there are special cases. No-one wants just a money handout, but there are special cases that need special recognition for some communities where the impact of aviation on the social structure of that community is so important. Certainly we would never advocate just throwing handfuls of money at the problem, but there are some special cases that need to be given special consideration.

Ms O'BYRNE—Where is your line between what is a special circumstance and what is a reasonable situation for a regional community to find itself in?

Mr Keech—I think most regional and rural communities, or outback communities—call them what you like—around Australia should have the right to and the expectation of the sorts of services that we who are either lucky or unlucky enough to live in the major centres have.

Ms O'BYRNE—I understand the concept of regional equity. But give me an example of an airport that would be a special circumstance.

Mr Keech—Cobar in New South Wales.

Ms O'BYRNE—What would be just outside special circumstance? What is a reasonable circumstance to be in? What is a reasonable level of service for a regional community, in your view?

Mr Keech—That is not for me to determine. My view is that it is up to each individual local council to find the balance between what is socially acceptable and what they can actually afford. With the new licensing certification that CASA is about to introduce, it may well be that some airports decide to go to a lower level of certification, perhaps because they cannot afford to maintain the levels that would be needed to have certain levels of operation, or aircraft into their airport. That is something that each local council has to determine.

Mr McArdle—As part of the local ownership scheme a couple of promises were given by government which were not fulfilled. One of those was the alleged reduction or removal of the excise on aviation fuel. My colleague the deputy chairman can extol those virtues because he is both a pilot and an airport person.

CHAIR—What were some of the other understandings given?

Mr Piper—The major understanding was actually a trade-off between the fuel levy and the level of subsidy, both capital and recurrent, that was offered through the ALOP scheme. I wanted to say to Mr McArthur that the ALOP scheme in itself was not to stand alone; there was a strong connection with the fuel levy. The level of angst in the aviation industry, particularly from pilots, and the level of confusion in terms of aerodrome operators as to where their funding stream will come from are tied up with the fuel levy, the ALOP subsidies and the fact that the fuel levy was not fully withdrawn and in fact has been partly reintroduced.

Whilst we cannot go back in history to reinstate ALOP, perhaps some clearer overall government aviation policy could be put in place dealing with the funding of community facilities of that nature, particularly when at that time pilots in general accepted quite peacefully the concept of a fuel levy. It also included some other freebies in terms of terminal charges and the provision of plans and charts and that sort of thing.

Mr McARTHUR—Could I just extend the argument to the privatisation of the major airports. This committee is picking up this differential between the major airports which have been privatised—those in Sydney, Melbourne and the other major cities—and these smaller regional airports, and then you have the ALOP scheme. Firstly, would you like to comment on the privatisation of the major airports?

Mr McArdle—With regard to?

Mr McARTHUR—Has it been successful? Are air travellers being well served, are the operators being well served, or has it been a failure? How do you see it?

Mr Keech—It has been very successful. It has been successful for government—it raised a lot of money—and it has been very successful, by and large, for each of the individual communities that are served by those major gateway airports. If you go around the country—

CHAIR—What about the air travellers? That is who we are worried about.

Mr Keech—The air travellers are being well served. Look at the facilities that have been provided for them.

CHAIR—I do not want to anticipate Mr McArthur's line of questioning, but there is a view that, for example, in Sydney passengers are paying an excessive amount. What is your view on that?

Mr McArdle—There are issues with regard to the additional levies on a passenger's ticket. The Australian Airports Association has no difficulty with the government's policy of user pays. If a user of a facility gets a benefit from that facility, they should expect to pay for that facility or that service. But we would have some difficulty with a levy placed on a service that has no direct benefit to the user.

For example, the Ansett levy that is placed on users of airports and airlines has no direct benefit to passengers, yet passengers are expected to pay for it. We also have a noise attenuation levy at two of our airports, and that is likely to be introduced at other airports. Sydney and Adelaide, for example, have a noise tax, for want of a better word. Passengers of aeroplanes receive no direct benefit, yet the passengers pay for it. Also, a significant levy has been placed on international travellers to pay for increased quarantine inspection. Whilst it does not have a direct benefit to the travelling public, it has a broader benefit to the whole community and economy of Australia, yet the travelling public are expected to pay for it. So I would have some difficulty in arguing that it is sound policy to place these extraneous levies and taxes on just the travelling public and have them collected by the airlines and passed on to—

Mr McARTHUR—Let me raise the issue of Macquarie Bank paying $5.2 billion for Sydney airport. They will be looking for sources of revenue from anywhere they can find it, according to the commentators. Would you like to comment on that?

Mr McArdle—I am unable to comment on Macquarie Bank's sound judgment or judgments in paying that much for Sydney airport.

Mr McARTHUR—They will be seeking sources of revenue, will they not?

Mr McArdle—If they are seeking sources of revenue that a person can get a direct benefit from or choose to buy or use that service, I would have no argument with it. Where they are placing exorbitant fees and fees that cannot be justified or are not transparent, then other parties will argue that. It is not our position as airport operators to argue it.

Mr Keech—You raised the issue of Sydney airport specifically and what consumers, what passengers, pay. In general terms right throughout Australia the actual component of the ticket that goes to the airport operator is less than five per cent, whether that be at Sydney airport, Tamworth airport or wherever. By and large, that represents just five per cent of

the value of the ticket. Five per cent is not insignificant, but I suggest that a lot of people play that up as being more significant than it really is.

Mr McARTHUR—Just focusing now on regional airports, this committee has looked at a couple of examples of where local communities are having problems with upgrading their airports, putting in good runways and providing facilities. Do you have a view as to who might provide the capital for upgrades and ongoing maintenance if local communities are having some difficulty in maintaining that?

Mr Keech—In my view, that would fulfil what Ms O'Byrne referred to earlier as some special cases, and there are special cases.

CHAIR—The island communities, for example.

Mr Keech—Yes.

Mr McARTHUR—Except everyone would develop a special case, would they not? Let us get a bit of a feel for improving the quality of airstrips. If CASA stipulates certain restrictions and quality controls, what will be regional airlines' operations in, say, 15 years time at some of these regional airports? What would happen in areas like Bendigo and Warrnambool, which I am aware of, and Sale, for example?

Mr Piper—I think you will find that the community themselves will initiate the fundraising on the basis that they have a need for the facility to be improved. Some of that fundraising may well be from government, but the fundraising activity is a result of the municipality or the operator taking action. You mentioned Bendigo. At the moment Bendigo are in very serious discussions with an operator to establish an RPT service to Bendigo. They are being curtailed in those developments because CASA has brought in some interfering regulation covering the size of the rooms that they will conduct their office business in.

CHAIR—What!

Mr Piper—Yes. That seems to be quite irrelevant to whether or not the airport is safe and can handle passengers and aircraft.

Mr GIBBONS—That may well be the case, but I think the length of the runway has a lot to do with it too. They have 1,100 metres, and they are trying to raise the funds to put in another 400 metres to bring it up to 1,500 metres, which is presently regarded as the norm for regional airports. I take your point about CASA, but there are other problems there as well which you really need to be aware of.

Mr McARTHUR—Can you be confident that you have enough money from these local communities to upgrade some of their airports—Bendigo being one and some of the others? We have had evidence that there is just not enough money from the local community to upgrade the airport facility.

Mr Forte—Can I comment in that regard? I would like to.

CHAIR—Yes, comment on that question. Mr Watkins has been waiting to respond to an earlier question, so when you are finished—

Councillor Watkins—In answer to your question, I believe that the RPT airports were of a satisfactory standard when they were handed over by the Commonwealth. I believe they have been maintained to that standard. But there is only the one catch for airport owners, and that is the tarmac strength and the length of their runways. As your RPTs increase in size, then they need more length and so on. But I think they are of an excellent standard and have been maintained as such.

Mr Forte—That complements what I would add. It is a high capital cost, and the maintenance of a runway, be it a reseal or an asphalt overlay, is referred to as a capital item. A standard reseal may be $300,000 to $500,000. So these are large-sum capital items for which airport owners are now having difficulty finding capital. They do not have that capital together.

Sure, a runway extension may be required, and that could be another $600,000 or something like that. But I come back to my earlier point that I do believe there would be a great advantage in the Commonwealth creating some grant programs with a specific aviation bent that these less fortunate airport operators—those with low capacity RPT or no RPT, so they do not have strong cash flows to generate the bucks they need for these capital works—could apply for. Those with a good, strong RPT will quite often be able to find the funds within their—

Ms O'BYRNE—In terms of where the burden of paying for these things falls—and correct me if I have interpreted this incorrectly—there is a view that user pays is good in the case of Sydney; there is a view that user pays is not good if the benefit does not actually benefit the person using it. For instance, it has been suggested the Ansett tax does not necessarily increase safety or do anything better for the flights people choose to go on. I understand that one. Then next we have small communities—I use Flinders Island as an example—which have low RPT, do not have large planes and lots of people coming in and out, and the cost of maintaining and keeping their airport safe and at a high quality is excessive. I am just trying to get to the distinction between the role that the community plays in funding these things and that role being fulfilled, as is being suggested by some people, in the form of start-up grants, infrastructure funding or whatever. When do we go from user pays is good, to user pays is good so long as it benefits the actual flier, to a community where half the community probably never fly? I am just trying to get that distinction.

Mr Forte—There was a dollar-for-dollar contribution. I think Mr McArthur asked what we would do if we could reintroduce ALOP today. I would say that the dollar-for-dollar arrangement worked very well when ALOP was in place. If a community came forward and said, 'We have $250,000 to put towards a $500,000 project; can we receive an equity contribution,' there is nowhere they can go now other than through a few—

Ms O'BYRNE—But take as an example a $2.3 million project on Flinders Island. With their rate base of around 400 to 500 ratepayers paying $600 or $700 a year, they will never make dollar for dollar. I am just trying to determine when stepping in would take place.

Mr McArdle—If the capital project on Flinders Island is justifiable on operational and social grounds, in other words they are not trying to extend, expand or upgrade their runway in the hope that by doing that it will attract thousands and thousands of additional aeroplanes—

Ms O'BYRNE—So only to maintain essential services as they currently stand, you would argue?

Mr McArdle—If the upgrade of that facility is required to ensure a continuance of service, a provision of community service obligations to that community such as, as Mr Keech alluded to, judicial visitations, medical visitations and other social requirements that the community at large requires, then that needs to be argued to support the community's contribution to the upgrade.

Ms O'BYRNE—Where is the gap filled, then? When do we go from that being an essential service that government should be involved in because people's health, wellbeing and ability to be part of the Australian community are at risk, to user pays is okay at Sydney unless people do not get a benefit from that user pays system? I am just trying to track almost a time line, in effect, here.

Mr Keech—That comes into the definition of who is the user and on what basis. We are not talking about that in the case of any of the smaller regional airports. They do not have users as such. The user is the local community—the local community who might have to be evacuated by air for medical reasons. Two years ago we did a very interesting survey of all rural and regional airports in New South Wales. Everybody said, 'They should pay for the upkeep of the airport because providing medical evacuations looks after the local community.' We were surprised to find that 75 per cent of all medical evacuations throughout regional and rural New South Wales were for people from Sydney, from Newcastle. They were not the local people. So there is a much broader community aspect to the provision of these airfields.

CHAIR—Mr Keech, could we have a copy of that report, please?

Mr Keech—I will find it, yes.

CHAIR—Could you send it to the secretariat. That might be handy.

Mr SECKER—Western Australia subsidises some of their regional air services. Queensland also subsidises some. New South Wales did. Do they still do any?

Mr Dubois—No.

Mr SECKER—South Australia?

Councillor Watkins—No.

Mr SECKER—Tasmania?

Mr Martin—No.

Mr SECKER—Northern Territory?

Mr McDonald—I am not sure there has been—not the subsidies you are talking about to remote areas and those sorts of things; some with respect to Virgin and other incentives.

Mr SECKER—Is this why you are looking at a national aviation policy, or are there other reasons? What do you understand a national aviation policy could achieve?

Mr Keech—We are not being selfish about this. Our view is that a national aviation industry policy should take into account not only all tiers of government but also the many and varied interests of all stakeholders, whether it be engineering facilities in Swan Hill or a major facility somewhere else. Every stakeholder in aviation needs to have a say. This country has no policy at present as to where aviation in totality is headed. There is a green paper for road at present. There are sufficient templates, I suppose you might say, that are available to all of us, for the government to take the initiative and to adopt a process to come up with an aviation policy.

Mr McARTHUR—Do you think it is a federal government responsibility?

Mr Keech—I believe so.

Mr McARTHUR—Where would you place the state governments in this?

Mr Keech—They have a role to play, as do the local councils.

Mr McARTHUR—They are a stakeholder.

Mr Keech—They are a stakeholder.

Mr McArdle—There are so many policies that relate to aviation. There is a security policy, there is an open skies policy—there are all of these different policies. There are shareholders. We have governments at all levels. We have suppliers to the aviation industry, be it an airport or an airline. We have freight forwarders. We have freight importers. All of these people have a role, an interest or a stakehold in aviation. We are suggesting that all of these bodies be brought together somehow to finetune and cut out where there is a doubling up of resource or administration and cross-administration.

Just in the act that controls the regulated airports, for example, we have three regulatory bodies having interests in security, airspace management and ground control—three administrators, three regulators, with three separate sets of legislation that all interact and are a cost that has to be absorbed by the industry at large. If there were an aviation policy that could finetune it like that, some savings, efficiencies and economies might come out of that.

Mr SECKER—I would like to ask Councillor Watkins about this, because I am a South Australian and I am just trying to get a clearer idea in South Australia—

CHAIR—There is absolutely no prejudice.

Mr SECKER—That is right. With respect to the number of airports in regional South Australia that have RPT, there is Port Lincoln?

Councillor Watkins—Yes.

Mr SECKER—Whyalla?

Councillor Watkins—I have them here: Broken Hill, Ceduna, Coober Pedy, Kingscote, Mount Gambier, Port Augusta, Port Lincoln and Whyalla.

Mr SECKER—There is no Riverland one?

Councillor Watkins—I think there is—

Mr SECKER—I know O'Connor Airlines flies to Mildura from Adelaide.

Councillor Watkins—There are intermittent services to Renmark.

Mr SECKER—But not regular?

Councillor Watkins—Not regular passenger transport, but they are flying out of there.

Mr SECKER—What about Ceduna; are there flights into Adelaide?

Councillor Watkins—Yes.

Mr SECKER—And Coober Pedy?

Councillor Watkins—Yes.

Mr SECKER—Is that on the Roxby run, or is it separate?

Mr McArdle—Yes.

Councillor Watkins—Yes.

CHAIR—I am a bit bewildered, especially by Councillor Watkins's evidence. Our anecdotal evidence is that, although there are no safety compromises at this stage, the running of these airports is getting beyond the financial ability of a lot of councils, especially those that do not have a fair volume of RPT going through them; namely, the largely provincial areas—Cairns, Townsville, Mackay, Dubbo, Tamworth et cetera. Beyond that level there are problems. Now you are saying that our airports are right up to scratch, world's best practice. You represent the people who own the airports. Can you tell us emphatically that there is no requirement for government assistance into the foreseeable future?

Councillor Watkins—What I said to you was that I believe they are being maintained at a satisfactory level with the exception of tarmac strength and tarmac length. It is not hard to put a bit of paint on your terminal, but it is very difficult—if you look at the figures, Ceduna has 9,000, Coober Pedy has 3,000, Port Augusta has 5,000; they will not get much return from their levies.

Mr Keech—There are a lot of other things that impact on the point that you are alluding to, and that is the protection of airspace. Local planning—

CHAIR—No, let us stay on the ground for the time being. Are the facilities on the ground up to scratch now and for at least the medium term?

Councillor Watkins—I am looking at these and I believe that they would be—or would they?

Mr Dubois—I would say that at present, yes, the airports are maintained at an adequate standard. I do not believe the airports will have sufficient funds to be able to maintain that in the future.

Mr SECKER—Especially the small ones?

Mr Dubois—Yes. Looking at airports like Glen Innes, Inverell, Gunnedah, for example, they definitely do not have the income streams to be able to look at a re-sheet of their runway.

Mr SECKER—All of it rate based on the council areas that actually afforded it.

Mr Dubois—That is correct. You are looking at a runway re-sheet at those types of airports of somewhere in the order of $300,000 to $400,000.

Ms O'BYRNE—Would they then be able to make a case for special circumstances assistance, which is the idea that is being—

Mr Dubois—I believe those people should be able to demonstrate to you that they are unable to achieve the incomes through their operations and be able to apply for some sort of assistance to maintain their airport.

Ms O'BYRNE—How would they prove that? Do they just come to us and say, 'We do not have the rate base'?

Mr Dubois—I do not think it is a case of saying that. I think it is a case of demonstrating to the government that they are unable to raise the necessary income to fund their capital works. You can ask them, 'Do you charge landing fees? Are the operators paying appropriate rates to operate through that airport?'

Ms O'BYRNE—My concern is that this committee's job is to report to the government about some of the ways we can best address the future of aviation and aviation services in regional communities, and when we do that we will have to have some kind of idea of what we are suggesting is the role of particular levels of government and, if there is a role, how much that would then cost.

Mr Keech—You are talking about benchmarking.

Ms O'BYRNE—Perhaps, yes.

Mr Keech—Three years ago the association developed for the local councils an income and an expenditure form—it is almost like a mini balance sheet that has a five-year time horizon on it. Every airport, if they filled it out and they did it properly, could put it down in front of you

right now and you would be able to look at that and say, 'There is a problem looming on the horizon here,' or whatever.

CHAIR—Can we have a copy of that?

Mr Keech—I will provide you with a copy.

Mr SECKER—It would be very useful for us.

Mr Keech—If you go to the South Australian government for some assistance on a state basis, the first thing the South Australian government does now is say, 'Give us a look at your five-page summary.' I will get a copy of that for you.

Mr Piper—In answer to Ms O'Byrne's question in general, the problem is that you are facing an almost impossible task because you are dealing with the whole strata of society in Australia and in many cases the operators of aerodromes are councils—councils which are driven by elected members of the day and their priorities change. This year they may be serious about their airfield but after the next election they are more concerned about the recreational reserve at the other end of town.

Ms O'BYRNE—But is that not the issue, though? The issue is the provision of air services in regional communities, and this committee's role is about assessing those frameworks that survive to make sure they operate, and that has to be done with that as a factor. Of course council agendas will change.

Mr Piper—If you take that as a factor to start with, you can see you have a major problem in trying to get a benchmark. The other problem is that since the demise of the ALOP scheme there really is not any standardised approach to how one deals with the problem of running airfields and financing funding streams. At almost every other airfield you go to you will find a different approach to how the matter is dealt with. Landing charges is one particular example. Landing charges vary tremendously from a charge on the weight of aircraft to the number of engines or the number of passengers. You also have a great deal of difficulty in predicting, unless you very carefully read things like ERSA or the AOPA airfield directory, the charges you will be faced with when you fly somewhere.

In turn, it makes it very difficult for councils to plan their approach. Some councils embrace the concept of community benefit and accept that they need to pay for the airfield, and other councils will say, 'It is all too difficult. We do not have the income.'

Mr SECKER—One thing we as a committee will have to look at is whether the community should subsidise regional air services and, if so, how and in what circumstances; and that is the sort of thing we need your help with. State governments all around Australia subsidise public transport in the cities, so what should we do for country transport, which is air transport in many cases?

Councillor Watkins—Certainly the state government does nothing for it.

Mr SECKER—No, that is right. In most cases they do not.

Mr Martin—I take on board the comments that have been made, but how can an area like Flinders Island, with 988 people, ask for assistance if they want to extend a runway some 500 metres further when they will still get the minimum capacity types of planes? Similarly, we have in Tasmania a small area like Strahan, which is going to become very big in tourism in probably five years time, but we cannot ask for finances through the federal government or state government to assist us at this stage. Because the runway was built on sand and shale, it will cost $2,500 to get it resealed and ready for suitable aircraft. So we cannot determine accurate figures. You have to look at the volume of the passenger list in each airport.

CHAIR—We have gone way over time.

Mr Keech—We are very grateful, and we apologise.

Ms O'BYRNE—Just quickly, are you anticipating that the issues in terms of funding will be part of the national aviation policy and that is one of the mechanisms you want to use in order to put that view across?

Mr Keech—Yes, indeed.

CHAIR—I thank Mr McArdle, the national chairman, Mr Piper, the deputy chairman, Mr Keech and the chairs and/or representatives of the state divisions for coming today. Your evidence has been very helpful. I think we may need to talk to you some more. I do not have a clear picture of exactly where we are going, and we might need your executive to come back to Canberra some time during the inquiry. We will be forwarding to each of you a copy of the *Hansard* transcript. After checking its accuracy, please return it to us promptly. Once again, thank you for coming today and for the evidence you have given before this inquiry.

Mr McArdle—On behalf of the Australian Airports Association, we thank you for the opportunity.

[2.14 p.m.]

MILLER, Mr David, Executive Manager, Economic Development, Southern Grampians Shire

CHAIR—Mr Miller, we will not be requiring you to give evidence under oath, but I remind you that these are proceedings of the parliament and they warrant the same respect as proceedings of the House itself. I warn all witnesses that the giving of false or misleading evidence is a serious matter and could be regarded as a contempt of parliament. Having said that, you are most welcome. Would you like to give us a five- to seven-minute overview of your presentation?

Mr Miller—I thank the committee for the opportunity of giving this presentation on behalf of three municipalities—the shire of Moyne, the city of Warrnambool and the Southern Grampians Shire—in relation to the possible establishment of a public regional air service based out of Hamilton and Warrnambool with access to Melbourne. Just before I commence, I would like to recognise the importance of the contribution of Aviation Business Pty Ltd in assisting us to put together this submission.

The three municipalities I am representing today have identified the need, which they have had for some time, for business people in their region to have quick access to main business centres, including Melbourne and Sydney. Currently in south-west Victoria, as I believe you may have heard in Glenelg Shire Council's presentation this morning, we have public air services provided by two operators operating out of the city of Portland in the Glenelg shire: Sharp Aviation and Regional Express, or Rex, which was formerly Kendell. That runs a daily service to Melbourne and also provides quite a reasonable service for people based in and around Portland. Unfortunately, to access Portland's services to Melbourne the majority of the population in western Victoria have a minimum of one hour's travel in the opposite direction towards the South Australian border.

We are looking at a population of 60,000 to 80,000 in the catchment area of Hamilton, Warrnambool and the shire of Moyne. Over the past five years we have surveyed communities within the Southern Grampians Shire to begin to identify a need for a public air service. The city of Warrnambool have completed a very extensive business plan for their airport services. In putting this submission together we have accessed that also.

I will not go through our submission page by page. On page 2 there is a summary of the key points we believe would be useful in at least commencing discussion. They cover areas of state government responsibility, Commonwealth government responsibility and local government responsibility. We do not believe that any one area should carry the burden more than the other. We believe it is a shared responsibility, especially as far as providing access for regional air services is concerned.

Prior to giving my presentation here today I listened to others comment on some of the issues for the smaller regions, and certainly they are identified in our area as well. One advantage we have is that in both regions our runways are approximately 1,400 metres in length. Hamilton has a sealed runway which is very well maintained and has very good terminal access facilities. It is

probably in the same situation as the smaller regional airports. Although it does not operate a public air service out of there, it is used daily by a contract service, Sharp Aviation, which does pilot training out of there and has many service aircraft coming in for all sorts of reasons. It is maintained very well by the council. Through the budgetary process there is an annual allocation of funds to make sure the runways and airport facilities are retained at a very high standard.

It is our opinion that, with regard to identifying a need within our community—and when I speak of 'community' I am talking about south-west Victoria in this case—we believe that south-west Victoria over the next 10 years will become a very important region economically for the Commonwealth government and also the state government. We have continuing growth within the dairy industry, and the people who are wishing to access some of the major business centres are now wishing to also access air services because of the time element. The dairy industry is very big along the coast and also increasing in growth at eight to 10 per cent per year. Along with that, we have potentially very large economic benefits with the development of our plantation timbers between south-eastern South Australia and western Victoria, and also the emerging mineral sands industry in the Murray basin, which have a very strong desire to access air services. They are establishing from Western Australia. They are used to using air services. It is not something new to them, and it is seen as the most efficient form of transport for many of them. So we believe that over the next 10 years there will be significant growth in south-west Victoria in particular and western Victoria in general—growth that we have not seen for quite some decades.

The majority of states have some degree of regulation and licensing, as we address in a table within our submission. The question was asked previously about subsidies within the states. Certainly we are not arguing one way or the other for subsidies. But what we would like to see and believe is justified is assistance on what we can classify as these thinner routes for the establishment of a service initially—not that it is to be subsidised on an ongoing basis but that there is some assistance there to establish them in the first place, until they prove their viability, which we believe in our case will not necessarily be an issue. A strong public desire for an air service has been identified there.

Also, on page 6 of our submission we state that we believe the Department of Transport and Regional Services' definition of 'regional air service' could withstand some discussion and maybe address some of those smaller regional subrural airports within that definition. On pages 9 and 10 of our submission we identify some of the threats to and barriers for the small operators and new operators commencing within rural Victoria and our regional centres. In relation to page 11 of our submission, we believe it is very relevant where it identifies an interest by a current service provider to expand their business in south-west Victoria. During the demise of Ansett in that era, there was substantial financial assistance provided to the former Kendell airlines, and that certainly put under threat some of the expansionary opportunities for a regional air service down in our area, and certainly provided financial incentives for one operator against another operator. If that same support had been provided to Sharp Aviation at the time, I am sure we would have a regional air service out of Hamilton and Portland.

On pages 13 to 17 we expand on our recommendations for the committee to consider in relation to the Commonwealth government's role in assisting the establishment of regional air services. I am happy to go through those if you wish.

CHAIR—No, thank you; just an overview and then we would like to ask questions.

Mr Miller—Fine. So, in conclusion, these three municipalities that have come together with this submission, and indeed Glenelg shire, are very serious about looking at the opportunity to provide their communities with a public air service, and we would welcome the opportunity to work with both the Commonwealth government and the state government in addressing some of the issues.

CHAIR—Mr Miller, you do not have RPT services to either Warrnambool or Hamilton at this stage?

Mr Miller—No, we do not.

CHAIR—How long has it been since you last had them?

Mr Miller—In Hamilton the service ceased in approximately 1989 or 1990. I believe in Warrnambool it was a couple of years earlier than that.

CHAIR—So it has nothing to do with things like September 11, people being nervous about flying, the Ansett demise?

Mr Miller—No, it definitely has not been.

CHAIR—You say both councils are prepared to go up to 1,500 or 1,600 metres at both those airports if they have to. One is already nearly there, but the other one is at 1,400. Is that generally—

Mr Miller—A lot of that depends upon CASA and the type of aircraft accessing our airports. Currently the proposal, as expanded to this stage, is for the use of a propeller aircraft, a 10-seater aircraft. We believe that that is the most economical and viable opportunity for us. The 19-seaters, in all honesty, would not be efficient on our routes because they would be running at probably around 40 per cent capacity, like they currently do out of Portland.

CHAIR—Where is the service most required—into Melbourne?

Mr Miller—That is correct.

CHAIR—Is there any demand for Adelaide?

Mr Miller—I will not say there is no demand.

CHAIR—Is there a case for a link with Mount Gambier again?

Mr Miller—Some two to three years ago I had discussions with O'Connor Airlines. At that stage they were looking at some routes around Mildura, a changeover of aircraft and what have you. There is a link between Portland and Mount Gambier at the moment on the daily service. I think if people wish to access Mount Gambier the reality is that, from Hamilton, it is close

enough that they are not going to step out of their cars; they are going to drive there. It is an hour and a half away.

CHAIR—What are the relative distances to Melbourne?

Mr Miller—From Hamilton it is approximately 300 kilometres, from Warrnambool it is about 280 kilometres and from Portland it is about 390 kilometres or something like that.

CHAIR—From Hamilton it is?

Mr Miller—Approximately 300 kilometres.

Mr McARTHUR—Could we get a proper perspective of this whole argument. In my judgment the difficulty that your airlines face is the quite strong competition from road; there is a time factor. You have had a number of airlines come and go. You are saying those two airports are pretty good—that is, Warrnambool, and Hamilton and Portland—yet you have not been able to sustain the airlines. Why do you think those particular operators could not keep going in that environment?

Mr Miller—Certainly with the 300-kilometre radius from Melbourne it is marginal whether people in the general community will step out of their cars and use an air service. Certainly during this last decade air travel has become much more of a norm for business people because of the time that can be saved as compared to previously. It is seen as much more important. I was not around at the time, but I believe the air service out of Hamilton closed because the Flinders airline service had been purchased, some route variations were made and Hamilton was taken out of the picture. But certainly in the past air travel from regional areas, particularly western Victoria, had not been seen as an absolute necessity by the general community. But now, as businesses develop and our centres become more industrialised than they were in the past, there being less focus on agriculture and more focus on industry, the people working within those—

Mr McARTHUR—Are you saying to the committee that you are confident that the Portland and Warrnambool and Hamilton services over time will become profitable if there is the right aircraft and right configuration?

Mr Miller—My understanding from talking with the current operator is that he believes they will.

Mr McARTHUR—What are the impediments for the current operator?

Mr Miller—An impediment to a certain degree is fear of the unknown, which is no different from any business proposition.

CHAIR—Unknown loadings or what?

Mr Miller—That is correct; how they will be sustained and also the need to purchase another aircraft to provide that access.

Mr SECKER—Does Hamilton airport have problems with fog and things like that?

Mr Miller—It has often been mentioned, and certainly it is on the west side of the Grampians. My understanding from talking with the current operator, who runs his flight training schools and contract air service out of there, is that he does not believe it is any more at risk as far as fog is concerned than a lot of other regional airports. He does not see it as an impediment.

Mr SECKER—Malcolm Fraser often had to fly into Mount Gambier when he wanted to get back to Hamilton. Mount Gambier is not exactly an unfoggy place, but it was better to go to Mount Gambier than to Hamilton. In fine weather it was okay to land his plane on the 1,400-metre strip, but they would not risk it if the weather was not fine.

Mr Miller—I am not sure what size plane he was using.

Mr SECKER—It was a VIP jet.

Mr Miller—David Hawker accesses it all the time flying in and out. Tullamarine gets fogged in from time to time, but Hamilton certainly does not on a consistent basis.

Mr McARTHUR—What do you suggest to the committee might help you in terms of operations? I am just trying to get a grip on what you would recommend to us might help you make these operations sustainable in the longer term in this very marginal area you are operating in.

Mr Miller—I did a presentation at the public transport seminars in Canberra a few months ago. In talking with some of the people there I heard a suggestion that, if assistance in the form of X amount of dollars for the establishment of a regional air service could be provided to the municipalities that were interested, where that money could be utilised to either upgrade a runway or terminal or assist the current operator become established, that would be beneficial. Also, as mentioned in our submission, it would be beneficial if there were no restrictions put on the smaller rural operators by CASA, so that the system remained flexible for them to work within. Certainly in relation to accessing Melbourne it would be beneficial—I do not know whether it is possible—if prop aircraft could access Tullamarine airport as well.

Mr McARTHUR—Has the retention of Essendon made a difference to the operation of those operators?

Mr Miller—Sharp Aviation have always flown into Essendon, so certainly that has been beneficial for them. They also have a contract with Alcoa for 3,000 seats annually out of Portland. So that is another factor in the opportunity to create a regional air service in our area: utilising that foundation, if you like, from there.

Mr McARTHUR—Why should it all be better in 10 years time? You are saying it is just marginal now and in 10 years time it will be better. Why is that?

Mr Miller—It definitely will be better as a result of the development of the mineral sands industry. They are establishing their full administration centre in Hamilton. Hamilton will be a

major processing area. Portland will become the export area for the mineral sands. We have the development of the blue gum industry. Value adding to that will create a significant number of jobs. I believe the south-west will actually be turning around their population decline and we will be looking at positive growth over the next 10 years.

CHAIR—What rail services do you have at present?

Mr Miller—A commercial rail service. We do not have a passenger rail service out of Hamilton.

CHAIR—What about out of Warrnambool?

Mr Miller—South West Rail operate out of Warrnambool.

Mr McARTHUR—Three times a day. It is a very good rail service.

Mr Miller—Yes, a daily service. It is very important to keep that rail service operating. Hamilton is serviced by a V/Line bus which comes from Mount Gambier and then accesses the Ballarat railway station for further conveyance by train.

CHAIR—So there is not sufficient passenger traffic there to demand any form of train, not even a sprinter train?

Mr Miller—There has not been up to this stage, although when the bus comes through—

CHAIR—When did you last have passenger trains?

Mr Miller—It would have been going back to the mid to late eighties, I suppose.

Mr McARTHUR—Turn of the century.

CHAIR—Did they go on the Ballarat line or on the—

Mr Miller—No, they were on the Ballarat line.

Mr McARTHUR—Can I put this scenario: if you took these aircraft totally out of the system, because it has been an on-and-off operation, as I understand it, and said, 'There are no airlines to Portland for Alcoa; there are no services to Hamilton,' what would be the impact on your community?

Mr Miller—That is a very good question. I think it would be quite horrific, actually, because the reality is that, in Portland's case, the workers from Alcoa are transported on a daily basis. Alcoa have a drop-down area at Laverton where people are dropped to go to their refinery there. There is transfer of personnel all the time. So there would be a huge impact on their time and costs.

Mr McARTHUR—That is just one industry, though, is it not?

Mr Miller—That is one industry at the moment. Certainly it would isolate a number of our larger employers who, when they have to, currently go to Portland to access the air service. But it is an hour there and an hour back. In Hamilton they have one of the few remaining pastoral research stations. People are accessing that all the time. If they had the opportunity to fly, they would fly instead of drive. Certainly, with the development of tourism along the Great Ocean Road, the European tourists are all on short stays. They want to see the Great Ocean Road and the Grampians. An air service there would provide an opportunity to hop around from Melbourne. But certainly it would have a significant impact on freight as well as on the transfer of personnel.

CHAIR—To what extent do you think the federal government can be of assistance to you in fulfilling your ambitions? Some witnesses who have appeared before us today have put money into the promotion of an airline that has come into their area. The council has actively helped promote the airline as a social service to the community, realising that unless it gets passenger loadings it is not going to lock the airline in to the community. What is your view on that? Do you think your three councils would be involved in a $100,000 package or something like that?

Mr Miller—I would not say it is out of the question. They are very keen. Our particular council, the Southern Grampians Shire, is extremely keen to get an air service up and running. It is like any other business. All municipalities have certain support policies in place to attract new business. This would fall into the same category. So I certainly would not say no to that.

CHAIR—What do you see as the federal government's role in helping you achieve this aim?

Mr Miller—The first thing is that at least the federal government and this committee are starting the debate on regional air services and looking at new ways they possibly can be provided. Certainly, as mentioned on page 2, there is the issue of whether or not aviation fuel tax rebates for the operators are possible and whether or not soft loans, as we have titled here, are possible for new start-up air services. These are all points for discussion. The Commonwealth subsidises Airservices Australia for their tower services and what have you, and we see continuing that as being very important. Also, there are various areas in regional development programs that the federal government supports. There is the issue of whether there is opportunity to access funds through those specifically for aviation services.

CHAIR—Mr Miller, thanks very much for that. Please thank the three councils for their interest in the inquiry. You have in some respects a more daunting task than others and in other respects an easier task than others. Some are trying to hold on to them; others are trying to attract and create a culture of aviation. It is true that you have to hold it there and have people regularly using aircraft. We will be sending you a copy of the *Hansard* transcript of today's proceedings, which we would be most grateful if you would check for accuracy and send back to us. We trust if we require any further information we can come back to you?

Mr Miller—Certainly.

CHAIR—Thank you very much.

[2.44 p.m.]

KEARNS, Mr Nicholas Peter, Strategic Planner, East Gippsland Shire Council

CHAIR—Mr Kearns, you have been very patient. You have been here all day since breakfast time.

Mr Kearns—Thank you, Mr Chairman. Thank you for the opportunity to make this presentation to committee members. The reason I was here last night and this morning was to catch up with Bill Barber. I have flown in plenty of planes, but I know nothing about them compared to what he knows in terms of types of planes, where they fly and how that somehow would relate to—

CHAIR—He is a very competent regional practitioner.

Mr Kearns—He is. I spent last night and I think most of this morning talking to him, and I hung around today for that reason: to really inform myself.

Mr McARTHUR—Who does the East Gippsland Shire Council represent?

Mr Kearns—Do you want some details about the shire?

Mr McARTHUR—No; what is the main town?

Mr Kearns—Bairnsdale is where the head office is.

Mr McARTHUR—So it is Bairnsdale through to the border?

Mr Kearns—Yes.

CHAIR—We will not be asking you to give evidence under oath, but I should caution you that these are formal proceedings of the parliament and consequently warrant the same respect as proceedings of the House itself. We need to remind you and all witnesses that the giving of false or misleading evidence is a serious matter and may be regarded as a contempt of parliament. Having said that, you are most welcome. Would you now like to give me a five- to seven-minute overview of your council's submission.

Mr Kearns—Thank you, Mr Chairman. I will not run through the submission.

CHAIR—I am glad you are not going to go through it. Take us to the highlights and the points on which you are seeking our assistance.

Mr Kearns—Okay. I will preface that by saying the Latrobe submission and our submission have some striking similarities because we were being informed by Latrobe while preparing this submission. I read through the submission, which I did not actually prepare, and tried to work out where we really stand on some of these issues. There are a lot of statements in there, in

terms of support, that the council believes an air service is required. We currently have three airfields: one we own freehold in Bairnsdale; one in Orbost, that is the Marlo airport; and one in Mallacoota. I have figures for those fields in terms of their operations and expenses.

Our submission essentially says the council believes air travel should be subsidised. In some respects the submission reads as though there is a universal obligation, a little like telecommunications—that air services are almost a right. It also says assistance is required from the federal government because most small operators will not be able to survive in the industry, and for that reason there needs to be much greater support. You will notice also there is a recommendation that the Bairnsdale airport should be able to handle 36-seater aircraft. That is one of the council's recommendations. I have since investigated that because it struck me when I read through the submission that the council did not talk about it much throughout the submission and then it popped it in at the end. Essentially, while there is definitely some need to extend and enhance the Bairnsdale aerodrome, I do not think anyone feels it will be an RPT aerodrome. So perhaps that recommendation is a bit left of field.

Mr SECKER—How long is it?

Mr Kearns—It is 1,100 metres.

Mr SECKER—You would not get in a 19-seater plane, I would have thought.

Mr Kearns—Apparently it is long enough to land a Metroliner and a Citation on it. The emphasis of our submission is that we support one regional airport in Gippsland. Essentially this submission has promoted the Latrobe city aerodrome. Having had another look at this, it would be easy for us to also say that that could be in Sale, either West Sale or the East Sale RAAF base. We are not necessarily trying to promote our area as an RPT site, but we believe that facility needs to be reasonably proximate to us.

Mr SECKER—How far is the Latrobe city one from there?

Mr Kearns—It takes me about an hour and a quarter to drive to Traralgon.

CHAIR—Are you happy if we go to questions now, or did you have anything else to add?

Mr Kearns—I would like to answer questions and then expand on the submission.

CHAIR—Okay. Bairnsdale is the main population centre?

Mr Kearns—Yes; there are about 11,000 people.

CHAIR—Then you have Merimbula. Is it on the border or just over the border?

Mr Kearns—It is about an hour over the border. So we have a population of just over 38,000.

CHAIR—When did you last have an RPT service?

Mr Kearns—I do not know whether we have ever had an RPT service.

CHAIR—You say in your submission you had a service via Albury to Sydney.

Mr Kearns—I think that is referring to the service out of Latrobe.

CHAIR—I see. What is the driving influence for an air service? Is it a business connection to Melbourne or Sydney? Is it in relation to time-sensitive products getting to market? Is it to build the business sophistication of the Bairnsdale area into a more robust regional community? Just give us a flavour of what your ambition is. With a population of 11,000, unless you were out near Charleville or somewhere like that, in the normal course of events you would not get an RPT. Just tell us what is driving this move and give us a bit of an idea of where we can be helpful.

Mr Kearns—The main driver originally for this was business. I think the feeling was that we would support a hub at Latrobe and that we would provide some business connection through to Albury—or originally Merimbula through to Sydney, but now from Albury to Canberra. Business people would be travelling from East Gippsland shire to Canberra. That was the original thought.

In terms of RPT, if there were a minor hub capability—and Latrobe mentioned this idea of smaller planes connecting from maybe Bairnsdale through to Latrobe—I think the general feeling is that there would not be the people travelling on those planes. Air travel in Bairnsdale is extremely rare. In fact most people would not entertain it. It is only about five hours to Canberra by car, so a lot of people just tend to drive.

CHAIR—What do you see as your capital for services? Is it Canberra, Sydney or Melbourne?

Mr Kearns—It would be Melbourne.

Mr McARTHUR—Essendon?

Mr Kearns—No, just Melbourne as the metropolitan—

Mr SECKER—How long does it take to drive there?

Mr Kearns—It takes about 3½ hours.

Mr McARTHUR—Do you fly into Essendon airport?

Mr Kearns—From Latrobe? No, there are no air flights at all into Melbourne.

CHAIR—You say you have the train to Sale. That is a sprinter train, is it, to Sale?

Mr Kearns—It is the same train that was servicing Latrobe. It is a mixture of either three-carriage trains or a single sprinter. Some people will catch a train from Bairnsdale to Sale and jump on the train there.

CHAIR—There is a train, is there?

Mr Kearns—There is a train. It stops at Sale, though, at the moment.

CHAIR—It is a feeder?

Mr Kearns—Yes.

CHAIR—Does it go on to Orbost?

Mr Kearns—It finishes at Sale now and then you catch a bus from Sale to Bairnsdale. The trains are coming back in June; that is the target.

CHAIR—That service will be extended?

Mr Kearns—Yes.

Mr SECKER—VicRail?

Mr Kearns—Yes.

CHAIR—Will your having a reliable train service two or three times a day make your task of getting air services a lot harder?

Mr Kearns—Absolutely. At the moment it is better to drive to Traralgon and jump on the train at Traralgon than actually to take the bus from Bairnsdale. Even though you will get on the same train in Traralgon, the fact is the service past Traralgon is very downgraded and with fewer trains running back to Bairnsdale it is better to have your car at Traralgon so that you can drive back.

We see our airports as fulfilling mostly an emergency role. The air ambulance is very important there. The air ambulance stops out of Bairnsdale two or three times a week. Our forecast is the demand for that service will grow. We have an ageing population, and it is a fairly rapidly ageing population. It picks up the retired people. We also operate fire bombers out of those sites. Particularly during the recent fires they had to fly out of Bairnsdale. They could not fly out of the Hotham airport because it was in the middle of the fires. There is also a fire bombing facility at Mallacoota. So we maintain the airports principally for that. We do not have much of a service from them. We have one flying school operator at Bairnsdale airport. There is one charter operation I think at Mallacoota, and that is about it. So it is a very minor service for us.

CHAIR—Are the three airports that you describe in your submission all sealed?

Mr Kearns—The Marlo one is not—well, it has a crushed rock seal, and the same with Mallacoota.

Mr GIBBONS—Can you just explain what a crushed rock seal is?

Mr Kearns—It is just gravel, basically. I think only the Bairnsdale one has a bitumen seal. We still have a problem with rocks on that runway.

CHAIR—Why is that? Is that because the seal is starting to break up?

Mr Kearns—No, I think it is crushed rock coming onto the bitumen seal from outside. It is only a fairly narrow bitumen seal and there is crushed rock on the outside of it. We have been told that we should sweep it if we are going to get more sophisticated planes on it.

CHAIR—Does council have a sweeper there?

Mr Kearns—No, not at the moment. But I think they periodically clean it. They will send up a sweeper on—

CHAIR—I think it is pretty important, if you want to be taken seriously in the game, to keep those things at a very high level.

Mr Kearns—Yes. We are probably being a bit more pragmatic by saying that, if we are going to have business connections and other passenger connections, we really have to be going to a centre outside our own, probably to Sale or to Latrobe city, and that we will be feeding those, not that we are putting up Bairnsdale as a potential RPT service.

Mr McARTHUR—For firefighting purposes, those airports have been used to fly to Omeo and—

Mr Kearns—Certainly the Bairnsdale one was used extensively for fire bombing.

Mr McARTHUR—Would you care to add to that?

Mr Kearns—I think they had at one point two Erickson planes flying out of it and they had some other reconnaissance planes flying out as well.

Mr McARTHUR—If those airports were not operational, what would have happened?

Mr Kearns—I do not know where they would have operated from then. They would have had to find smaller strips around the place.

Mr McARTHUR—Would your shire run an argument that they need to keep the airports operational for firefighting purposes?

Mr Kearns—I think that is pretty much why we keep them operational. We keep them operational, from where I see it, for principally firefighting and air ambulance purposes.

Mr McARTHUR—Will you be putting in a submission to the state government along those lines, that the availability of smaller airports is critical to firefighting operations?

Mr Kearns—We are not, but we should.

Mr McARTHUR—What about the availability of those airports for Bass Strait oil rigs?

Mr Kearns—We think that would be more likely from Sale. There are a lot of people who almost live in the region. Some of them work around Darwin and live in Metung or somewhere like that. They will fly around, but they tend to drive to Melbourne and then fly out from there. There are a lot of operations. I think helicopters take off from West Sale to the oil rigs.

Mr McARTHUR—Could you comment on the quality of the airport at Sale and its impact at the regional level? There is quite a good airport at Sale, as I understand it?

Mr Kearns—I have been to the West Sale airport, and I think it is of pretty good quality. It has an excellent terminal. Some of the comments I received were that East Sale probably had the greatest capability because it had the longer airstrip and that in terms of servicing the hub it could handle jumbos because it had such a long strip.

CHAIR—Why is that? Is it ex-RAAF?

Mr Kearns—Yes, it is a RAAF base.

CHAIR—It still is, is it?

Mr Kearns—It could be similar to the Tindal base where you have obviously a fairly big RAAF facility but then you have a separate terminal for passengers.

CHAIR—I did not realise that. That being the case, would you not do better building the hub around Sale and seeking an upgrade of rail services to Bairnsdale? Then you would get the best of both worlds.

Mr Kearns—That is probably where I would have been heading if I had written the submission, I suspect. It becomes clearer that, from our point of view, that probably would have been a better scenario.

CHAIR—If the RAAF are still there, then your maintenance is going to be infinitely less pressured than what you are going to have at Bairnsdale.

Mr Kearns—That is right. There are also benefits from airfreight. You can fly airfreight out of there, but you cannot fly airfreight out of any other airport.

CHAIR—Do you have much time-sensitive product coming into Bairnsdale? Is any fish processing done there?

Mr Kearns—I have not been able to find out about the fish processing—I have been trying to—but there is horticulture and there are a number of groups—

CHAIR—What is that? Flowers?

Mr Kearns—Vegetables. Particularly with things like asparagus, they are trying to fly fresh horticultural produce to Asia.

CHAIR—Out of where?

Mr Kearns—Out of Gippsland.

CHAIR—Through Sale?

Mr Kearns—Yes, probably through Sale. They are also looking at the idea of rail having cold storage facilities. That is being looked at at the moment, which sort of conflicts with that idea.

CHAIR—How many freight trains a day do you have?

Mr Kearns—I do not know, I am afraid.

CHAIR—Do they carry chilled wagons et cetera?

Mr Kearns—No, we do not have any chilled wagons. I think the only freight going out is some timber.

Mr McARTHUR—A lot of timber is going out generally.

Mr Kearns—Yes, a lot of timber is going out of Bairnsdale at the moment. The only freight coming in would probably be small packages, mail and things like that.

Mr McARTHUR—Could we discuss a bit more the oil rig operation out of Sale. My personal observation is that that creates quite a lot of aviation activity in the region. Would you like to comment on that?

Mr Kearns—The best airport terminal to service, say, a hub properly is one which can handle most things. If it had a defence capability or a capability to transport people to the oil rigs, and you couple that with the passenger and the freight service, you are going to have a complete air service. The problem we have at the moment is we have West Sale, we have Latrobe and we have East Sale RAAF base. Somewhere along the line we could probably benefit from aggregating the sorts of services provided by the three of them.

Mr McARTHUR—Would people in Mallacoota fly in a light aircraft from Mallacoota to Sale?

Mr Kearns—No. They do not have much to do with the other parts of the shire anyway. So they are more likely to drive to Merimbula. There is quite a divide—if you know our shire—between Bairnsdale and Mallacoota. It takes about three hours to drive to Mallacoota.

Mr McARTHUR—From Bairnsdale?

Mr Kearns—Yes. They have a much better affinity with New South Wales than probably—

Mr McARTHUR—In terms of medical emergency, where would they go from Mallacoota?

Mr Kearns—They would probably go back to Bairnsdale. It would still generally run on state lines. They would not go into New South Wales, but it is possible. It might be possible for them to go to Eden by road or something like that.

Mr McARTHUR—What is the Mallacoota strip used for?

Mr Kearns—Only fire bombing, there are about two private hangars there and the air ambulance. That is about it. It is a very big airfield.

CHAIR—That is in your shire?

Mr Kearns—Mallacoota, yes.

CHAIR—So you have that long, thin strip right along the coast?

Mr Kearns—Yes. About 76 per cent of the shire is state forest, which is one of the reasons why there is an emphasis on fire bombing. They are DSE facilities.

CHAIR—Mr Kearns, thanks for coming along today, and please thank your councillors for their cooperation. You have a very difficult role there. Unlike the others who have appeared as witnesses today, you do not have the same population base.

Mr Kearns—That is right.

CHAIR—Your best opportunity appears to be upgrading that airport for a charter service that would concentrate, from a passenger point of view, on Sale or getting an upgrade of rail.

Mr Kearns—There are a few points I would not mind adding.

CHAIR—Sure.

Mr Kearns—I was not sure where you were going to go with some of these issues, so I tried to pre-empt them.

CHAIR—Just give us an idea of where we could help you.

Mr Kearns—I have read through all the submissions that you have on your web site. It is going to be very difficult for you to work out what sort of policy people want. I am not sure you could turn a lot of the submissions you have been receiving into a policy. Part of the reason why they asked me to do this is that I have travelled a lot on regional aeroplanes. I used to work in the Northern Territory and the Kimberleys, and I spent a lot of time in planes. So I had a good feeling for why those regional air services worked and why they will not work, or they do not tend to work down here.

If there were going to be an effective regional aviation services policy, the first thing would be to determine what the purpose was of the regional air aviation services: why do we have it? Bill Barber made that point. He was saying you really have to understand why we are in it: is it a lifeline or are we trying to grow development in the country? We have to be careful we do not

think that regional aviation is going to start fuelling development, because it is putting the cart before the horse. It is a little bit like the wild west where they were laying down railway lines and expecting growth to occur along the stations. I do not think that will happen any more.

From the council's point of view, once you have defined the purpose of that—and that might be for emergencies or for training—I think training is really important in terms of regional air services. When I was travelling around the Northern Territory I think every pilot I flew with, and many times I would be sitting next to them, told me they were having interviews with Qantas or someone to work with them. So regional aviation is a very good training ground.

CHAIR—Do you have a couple of flying schools in Bairnsdale?

Mr Kearns—We have one flying school. So they were charter planes. A lot of those charter pilots are going to become, say, Qantas pilots. Flying charter planes is sort of a backdoor entry into Qantas. Once you have established what the purpose is, rather than talking about the hubs and those sorts of things, it is really just a matter of working out what the routes are going to be and where the routes are needed. Those terminals come from the routes. There is not much point in having a flight from Latrobe to Melbourne because it takes longer to fly to Melbourne, get out of the plane, jump into a taxi and go to where you need to go in Melbourne than it does to jump in your car and drive straight there. If there were a reason to travel, let us say tourism, from Bairnsdale to Mildura—it is almost impossible to drive from Bairnsdale to Mildura—maybe there would be a case for an air route. Maybe there is a case for a route from Geelong to Bairnsdale. One of the reasons why a lot of the destinations I went to in the Territory worked was that you could not actually drive there, you had to fly there, or if you had to drive there it was going to take a lot longer. There has to be a sensible reason for the route. It cannot be just for the sake of doubling up.

If that is the case, if you are going to have proper air services, they have to be coordinated with other forms of transport once you get there. You have to be able to get out once you get in. If people flew from Darwin to Katherine—a lot of the government people did—often they had people from the department picking them up at the other end. If that did not happen, they would have driven. In fact that is what used to happen. Those who were meeting people would jump on the plane and go down. If they did not have people meeting them, you would see them flying down the highway. So you have to have some way of getting away from the airport.

Once you have worked out the routes, then all you have to do is work out the facilities. From our point of view, our aviation facilities generally are going to have emergency, fire and those sorts of capabilities. They are not going to be the hubs. Irrespective of that, once we have worked out a hub, there could be other interconnections. But it is not necessarily going to be straight to the capital cities. It may be region to region. I think that is more the point. It is not going to Canberra; it may be going to Geelong or Bendigo.

CHAIR—Have you done tracking studies of where Bairnsdale people go? Do you know what proportion of your Bairnsdale people do their business in Melbourne, in Canberra and in Sydney?

Mr Kearns—No, we do not. Anecdotally, we know it would be very small. Our population, as I said, is about 38,000. In the peak summer periods around the lakes area that number will more than double. So we have a big influx of people. A lot of the people who have properties in

the shire are non-resident landlords. They might be from Melbourne or they could also be from Latrobe.

CHAIR—Hence the importance of having that airstrip in top condition for emergency services.

Mr Kearns—That is right. It is very important. Mallacoota, for instance, normally has about 1,500 people. That number would swell to maybe 7,000 over summer. So it becomes critical to be able to get in there and to be able to run emergency services. When you are talking about expenses, the airports cost council about $170,000 a year. That includes operating costs and some allowances for capital costs.

CHAIR—How much?

Mr Kearns—$170,000.

CHAIR—To maintain—

Mr Kearns—The three airports. Our income is $10,000.

CHAIR—That sounds enormously high considering you do not have any RPT services.

Mr Kearns—That is right. It is extremely expensive. I cannot work out why we do it, but that is the actual expense. We have contractors who look after each of the airports and we have an ongoing capital improvement program.

CHAIR—Do they go out to tender?

Mr Kearns—Yes, they do.

CHAIR—It sounds awfully high to me.

Mr Kearns—We currently have some funding requests within our own council for upgrade works. The Marlo aerodrome does not have GPS non-precisioning. I am told that the federal government supplies this as almost standard in most airports. It will fund it, but it will not fund it on the coast because it does not believe it is foggy, but we have problems with sea mist. So that was one point the maintenance contractor wanted me to make.

CHAIR—If you can get that in writing, we would like to see that.

Mr Kearns—Okay. We do need to extend the Bairnsdale airport. There was some talk about having RAAF training exercises on it and their using it as a spillover for the East Sale RAAF base. They have in the past used it to do what they call touch-offs, where they fly in and fly out pretty quickly.

CHAIR—Thanks once again. We will send you a copy of the Hansard draft transcript. If you would check it for accuracy and return it to us, we would be most grateful. We trust if we require any further information on your area we can come back to you?

Mr Kearns—Yes.

CHAIR—Thanks very much, Mr Kearns.

Proceedings suspended from 3.13 p.m. to 3.26 p.m.

BREWSTER, Councillor Geoffrey David, Mayor, King Island Council

GRAHAM, Councillor Neil Raymond, Councillor, King Island Council

CHAIR—Welcome. We will not be requiring you to give evidence under oath, but I should caution you that these are formal proceedings of the parliament and warrant the same respect as proceedings of the House. The giving of false or misleading evidence is a serious matter and can be considered as a contempt of parliament. That caution is given to all witnesses, not particularly to people from King Island! I mention that because you had an apprehensive look, Mr Graham; it worried me. Nevertheless, it is a serious matter and we would like everyone to be aware of it. Are you going to lead off, Councillor Brewster?

Councillor Brewster—Yes, I will.

CHAIR—Could you give us a five- to seven-minute overview of your submission, and then I will ask Councillor Graham whether he wants to add anything. Then I would like to get into some interaction. Before you do so, I would like to say that we did give a verbal understanding that we might come to King Island. In the fullness of time we received many more submissions from Flinders Island and, as we could visit only one island community in this three-day period, it had to be Flinders Island. That does not mean we are not interested in King Island's affairs. We are very interested in what you are doing. Indeed, a lot of the problems that we picked up on Flinders Island I am sure mirror problems that you have. On the other hand, you are a more developed island and I suspect that your expectations of government would be different from those of Flinders Island. On that note, could you give us an overview.

Councillor Brewster—Mr Chairman, thank you for the opportunity to address the committee. I believe that, in the case of King Island, where aircraft are the only means by which people can travel to and from the island, air services should be considered essential services. Where demand for these services is less than can support competitive enterprises, some form of government intervention or involvement is necessary to ensure that an appropriate level or type of service is provided at a price that does not discriminate against or further marginalise the population or industries on the island. Exactly the same rationale should be applied to shipping services to the island.

The future of all our established industries is, to a large degree, dependent on Bass Strait transport services that operate as monopolies and project to their customers no degree of certainty in the economic vagaries that exist today. Both ships and aircraft have limited lives. The ships servicing our island once a week, weather permitting, provide service between Devonport and Melbourne the balance of the time. On that run the service is competing with Brambles and the TT Line. There are arguments suggesting that, when the existing lease on the vessel expires, Patrick Shipping may choose to abandon King Island and replace the *Searoad Mersey* with a vessel the same size as their *Searoad Tamar*. This would make their service between Melbourne and Devonport more competitive with Brambles and TT Line. Unfortunately the physical size of the port on King Island restricts the size of vessel able to berth there. It would not be possible for the *Searoad Tamar* to berth at King Island.

It would be some comfort for the island if the service provider could be contracted to provide some minimum service in the more distant future. The state to date has not been able to achieve this since the last contract expired in April 2001. There is still significant potential for further development of existing industry on King Island, but without certainty and competitive pricing as components of these essential transport services development is stifled or at best constrained significantly.

The question was raised in the hearing earlier this week as to the potential for the TT fast ferries to stop at King Island en route between Melbourne and Devonport. I understand that they also will not physically fit into the port. The largest vessel able to berth unassisted would be 120 metres in length. It would require bow thrusters and would be limited by wind strengths and directions. The largest vessel that could enter the port assisted would be 130 metres. The present wharf is only 80 metres in length. The *Searoad Mersey* is limited to maximum wind speeds of 23 knots.

King Island airport also has limitations as to aircraft that can land at that facility. Runway length, runway width and pavement strength are the main limiting factors. Options that might provide some solutions to transport costs and associated disparity with other parts of Tasmania or the Commonwealth could be the provision of a government subsidy paid directly to an airline providing an essential RPT service with an excess of a certain number of seats on that aircraft. The subsidy could be an amount less than that which the airline would achieve if it sold a seat and paid only on empty seats. This would provide incentive for airlines to increase capacity and could be a lever to entice operators to upgrade seriously ageing aircraft.

In shipping, at least as a minimum, the service provider should be contracted to provide long-term certainty, and the Bass Strait subsidies which Tasmania enjoys should be applied to both northbound and southbound freight, and vehicle movements to and from the island.

The submission by King Island Council includes five highlighted recommendations. The first one is that the government acknowledge the efforts of existing RPT operators in providing service to King Island and that the government provide appropriate incentives to have Regional Express recommence flights on the Melbourne-King Island-Wynyard or Devonport return service. The second is that the government offer appropriate tax or other incentives to encourage RPT air operators to upgrade and modernise their fleet in order to meet both the demand and the essential service requirements of remote populated islands.

The third is that the state and federal governments address the inequity that exists in terms of passenger transport across Bass Strait by providing appropriate subsidies to the airlines that operate to the islands for the passengers they carry. The fourth is that the government recognise a community service obligation to either establish or use an existing service centre to cater for the needs of travellers that do not have Internet or credit card facilities, for example Service Tasmania, or offer a subsidy that will facilitate the full range of private ticketing services. The fifth and final recommendation is that government review the impact of transferring aerodromes into local ownership, the ALOP program, with a view to establishing and, if possible, reducing the cost imposts on rural and remote island communities.

I took on notice some questions asked of me at the hearing in Launceston two days ago. The average visitor stay on King Island is 2½ to three nights. I was asked a question in relation to the standard of accommodation. Accommodation on the island ranges from three- to 4½-star

ratings. King Island also has one small caravan park. I am not sure of the exact number, but I think it has eight or 10 on-site caravans that have individual shower and toilet facilities.

CHAIR—Did you want to add anything, Councillor Graham?

Councillor Graham—I can give a few facts and figures in relation to the shipping side of it and refer back also to the Tasmanian Freight Equalisation Scheme review of 1996, which had some recommendations which should be undertaken and referred to the need for a full review.

CHAIR—What is it called?

Councillor Graham—The Tasmanian Freight Equalisation Scheme review of 1996.

CHAIR—Do you have a copy of that?

Councillor Graham—Yes.

CHAIR—Could you provide the committee with a copy of that?

Councillor Graham—Yes. We were talking about the ship and the current impasse with the Tasmanian state government in relation to the contract. When the new vessel, the *Searoad Mersey*, started in 1991 they had a contract with the government and they were paid a subsidy of about $220,000 a year. With that subsidy, it allowed the King Island community and the state government to have an input into that service. So they had a control on the service. That put the onus on the shipping line, which is now called Patrick, to replace that vessel with a suitable ship after two missed sailings.

CHAIR—After?

Councillor Graham—After two missed sailings. Bad weather or something may cause a ship to miss a sailing.

CHAIR—I see.

Councillor Graham—So to ensure continuity for the abattoir, which is basically export oriented—about 65 per cent of its production goes directly to Japan, and there is a 42-day window of opportunity before the commodity becomes—

Mr GIBBONS—Sorry to interrupt you. Are those beasts shipped to the Victorian mainland live or—

Councillor Graham—No, they are processed at the abattoir for the Japanese market. But if there is an interruption to that service the abattoir loses that market. As you can understand, export markets are very fickle, in particular the Japanese export markets, and it does not take much to lose them. So we have to ensure we have that service. With the contract we had before with Patrick, the onus was on them to replace a vessel at their cost after two missed sailings. We cannot get that contract signed. The state government is not interested at all in signing a contract with Patrick at the moment.

CHAIR—You say that was the original arrangement?

Councillor Graham—That was the original arrangement until April 2002.

CHAIR—Was that honoured?

Councillor Graham—Yes, very much so. They had to send the ship to Singapore to get a 27-metre extension put in the middle of it, and they provided us with another vessel. Another time they tore the bottom out of the ship at Grassy harbour when they went across a reef where they should not have gone. They have honoured it. The argument put up by the Tasmanian government is that the contract is hardly worth the paper it is written on, that you could be involved in litigation for 10 years if it is not honoured. Our argument is that that is not true. History shows that Patrick are honourable. They have always provided us with a good service. It is a dear service—it is probably the dearest service on Bass Strait—but we do have that regular weekly service. It will transport livestock in most weather conditions. It is a very stable ship. As far as animal welfare is concerned, it is very good. So the King Island Council has been trying to put pressure on the government to get this contract sorted out. But they have made no bones about it: there will be no contract.

If, somehow, we can get federal intervention here, we would appreciate it. We get somewhat dismayed when we see the sort of money the federal government pours into purchasing a ship for TT Line. It virtually bankrolled the *Spirit of Tasmania* when it bought it nine years ago. It is a heavily subsidised service. King Island does not receive any of that sort of assistance. We have the TT Line in Tasmania possibly jeopardising one of the services run privately, either Brambles or Patrick, because they are taking some of that freight. If Brambles goes, that is not so bad for us. But if Patrick go, if they decide to pull out, King Island will not have a service and that is a major concern to us.

King Island is a specialised port. It needs a specialised ship. It needs a ship that is very manoeuvrable. It needs bow thrusters and all those sorts of things. You cannot bring just any sort of ship in there. The Tasmanian government is saying, 'If the *Searoad Mersey* goes off, we bring in the *Matthew Flinders*.' The *Matthew Flinders* carries 11 containers per shipment. It can average about 2.5, 2.3 trips per week into King Island.

CHAIR—Is that the one we would have seen yesterday at Flinders?

Councillor Graham—Yes, that is the one.

CHAIR—It is painted blue.

Councillor Brewster—They have two ships, I think.

CHAIR—I remember by colours.

Councillor Graham—It is a wet ship; everything gets wet. All our fuel comes in in isotainers on the *Searoad Mersey*. When you take out the general produce that stocks up the supermarkets and so forth and you look at what the abattoir alone is producing, which is 15 containers a week, there is no way known that little boat could even cater for a fraction of the King Island

service. If the *Searoad Mersey* misses one or two shipments because of bad weather, in the next sailing it can pick up in one go all the freight for King Island; King Island will have priority, and that has always been the case.

The point I am trying to make is that there is a very good case here for the King Island service somehow being helped along, or perhaps the government could put a little bit of pressure on the Tasmanian government to get its act together and try to get some sort of a contract signed with Patrick. I know what the problems are. I do not know whether I am at liberty or whether it is even relevant to talk about them today. If you want to know, you had better ask me; if you do not want to know, then it really does not matter.

CHAIR—Our inquiry is into services to the populated islands. I do not ask you to breach anything that is sub judice or commercial-in-confidence. But, if it is not sub judice or commercial-in-confidence, we would like to hear it.

Councillor Graham—There are three things. The first is the term of the contract. The *Searoad Mersey* was built in 1991, or that is when it came into service. The life expectancy of a ship is about 15 to 17 years before you start to spend lots of money and it becomes unviable with downtime, dry docking and so forth. So within the next two, three or maybe four years the *Searoad Mersey* will be going out of service. The government were wanting a long-term contract with Patrick, like for 10 years. Patrick are prepared to give them a guaranteed service for the next 2½ years with six months notice before they pull out of service. That is in effect a three-year contract. So that is the first thing. The government want a longer contract. Patrick are not prepared to give it at this stage.

The second thing is the amount of incentive to keep Patrick coming to King Island. You can call it a subsidy, but that is a nasty word. I call it insurance, because it allows the King Island people and the state government to have an input into that service. When the state government were running the service themselves in 1990 they were losing $2 million a year on that service. They negotiated a contract with Patrick and they offered them $220,000 a year. At that time they also had the scheelite business, but that closed in 1991. So they lost it. But they still honoured the contract.

CHAIR—What was the scheelite business?

Councillor Graham—That was the tungsten; the largest open-cut mine in the Southern Hemisphere on King Island.

Mr SECKER—That is the ore of tungsten?

Councillor Graham—It is where they extract tungsten from scheelite.

CHAIR—That has stopped, has it?

Councillor Graham—That stopped in 1990 when the Chinese were flooding the market with their second-grade material and the Western countries, and King Island, could not compete.

Councillor Brewster—There has been recent interest in re-opening that mine.

Councillor Graham—There is talk, but the point is the contract was drawn up before the scheelite mine closed. Patrick did honour the contract. It was a big market. I do not know how many tonnes they were putting out, but at the peak of its time the scheelite mine was employing over 500 people. So it was a big mine on King Island. They lost all that, but they still honoured their contract. The second significant point is the amount of incentive or insurance to keep Patrick in the service. I believe Patrick are looking at a figure somewhere between $300,000 and $400,000. I cannot give exact figures. That figure is not bandied around an awful lot, but that is about the figure.

CHAIR—Was that $220,000 consumer price indexed, or was it a flat figure?

Councillor Graham—It was consumer price indexed. I think the last payment was about $227,000. It might have started at about $200,000 and it has just gone up. But it was less than $230,000 the last year the contract was going, which was 2001.

Mr McARTHUR—So what is the argument? The government do not want to pay the subsidy?

Councillor Graham—That is right. The bureaucrats in Hobart say, 'How can we justify telling the taxpayer in Tasmania we are giving the King Island community $400,000 a year for a shipping service?'

Mr McARTHUR—What does Patrick say?

Mr SECKER—The same way they can justify subsidising their public transport in Hobart.

Councillor Graham—And TT Lines to the tune of $1 million a month. You are right.

CHAIR—You could also argue, if there is a freight equalisation scheme to benefit Tasmania from the Commonwealth, why would the same privilege not be extended to the islands off Tasmania?

Councillor Graham—I will get onto that in just one minute. I believe we can justify the $400,000 incentive. We have a King Island shipping group on King Island which is dealing with the government and the council. State government representatives, when they came to King Island, until a month ago, made no bones about it: they will not be paying a subsidy; they will not be getting into a contract. Patrick are running a commercial operation, meaning that it is viable, and thank goodness that it is, and because of that the government are not going to get involved. So there are two things: the tenure of the contract and the amount of the subsidy. There is another one. There are three basic problems.

Councillor Brewster—The provision of an alternative ship.

Councillor Graham—Thank you. The government have a contingency plan so that, if the ship goes belly up or whatever, they can call on a ship elsewhere in the world to fill in the service. We do not go along with that because, as I said, the port is a very restrictive port in relation to what can and cannot get in there. There will be a cost to the government in doing that. They are putting $220,000 a year into a fund, non-cumulatively; that is, they put it in each

year but if it does not get used they pull it out. With that fund they reckon they can put on a ship and fill in the gap. We do not believe they can. It is a worry to the exporters—the abattoir. It is a worry to the two dairies. It is a worry to the livestock producers on King Island because we are exporting live about 8,000 head a year. There are 25,000 head being processed through the abattoir, of which, as I said before, 65 per cent goes to Japan. There is no way known that they can cope with that.

Before with the contract the onus was on Patrick. The cost was on Patrick. Patrick have said to the government, 'In a new contract we will fund a replacement vessel or upgrade the infrastructure for a new vessel at Grassy up to a certain limit, and from then on the state government should top it up in case of emergency.'

CHAIR—That is the capital cost of the wharfage or something?

Councillor Graham—The wharf. The wharf is a very specialised wharf. It has been designed for using these planmarines, these Terbergs, these four-wheel-drive prime movers that pull a cassette which might have four 20-tonne containers sitting on it, so that is 80 tonnes. They are a specialised machine and they can move large quantities very quickly.

So that is the long and the short of the shipping service. We have a problem with the government at the moment not wanting to sign a contract with Patrick. That is creating a very high degree of uncertainty in the King Island business community, and the rest of King Island. This has been going for 18 months now. That contract expired in April 2001. That is nearly two years ago. Nothing has been done, and it bothers us. So, if we get somewhere on that one today or down the track, that would be good.

Getting back to the TFES, the Tasmanian Freight Equalisation Scheme—and you made a comment about intrastate assistance—in that review in November 1996 a recommendation was made that a full review should be undertaken and that full review should look at intrastate equalisation, that is between Tasmania and King Island. I will not talk about Flinders Island. Just assume that what I say for King is the same for Flinders. What cost should be included in the equalisation? At the moment it is only wharf to wharf. But with coastal shipping you have door-to-door costs because you have container consolidation and so forth. There are costs. The bluewater costs are insignificant compared to what we call non-bluewater costs. If you have goods that are being exported out of Australia, let us say to Japan, they are no longer eligible for any equalisation.

CHAIR—Is that purely the Tasmanian government's rule?

Councillor Graham—No, they are the TFES guidelines.

CHAIR—The federal government's rules are the same, are they?

Councillor Graham—Yes. The federal government was saying in that review, 'These issues have to be looked at in a full review of the TFES.'

CHAIR—When was that due?

Councillor Graham—That was done in November 1996. That is six years ago.

CHAIR—When was the next review to be done?

Councillor Graham—It did not say. It was open-ended.

CHAIR—I think we might leave that there so that my colleagues can start asking you both some questions.

Mr SECKER—There has been quite an extraordinary drop in the number of visitors to the island, from 14,000 to 9,500, or something like that. You say in your submission it was basically when Kendell or Ansett crashed. I have heard different figures over the last couple of days, that you have 8,000 visitors, 9,000 visitors, 14,000 visitors. Perhaps that can be explained by the fact that some of those passengers are locals rather than visitors. I am just trying to work out how many tourists come to King Island a year and whether that number has dropped a lot.

Councillor Brewster—My understanding is the tourist number is 14,000. That information came from a survey conducted at the airport. That is my understanding of it. There probably are or probably have been more than that, though. The island population is a unique population in that when friends and relatives visit they do not just jump in their motor car and drive over for the afternoon; they tend to come and stay for a number of nights. In all the survey work that is done they do not necessarily get counted as tourists because they would tend to stay with their relatives on the island rather than in recognised accommodation houses. So there are discrepancies in figures.

Mr SECKER—About 80 per cent come from Melbourne; is that right? Did I read that somewhere?

Councillor Brewster—That would be correct.

Mr SECKER—They could be from anywhere in Australia, but 80 per cent come in via Melbourne. Are you happy with the amount of air services you have now?

Councillor Brewster—Air services to the mainland are growing again to cater for the same level of demand there was prior to the Ansett collapse. Service to Tasmania is still insufficient for the needs of the island. With respect to having a single operator with a monopoly on that run, I would congratulate the operator for the service he has provided, but clearly—

Mr SECKER—I thought you have three?

Councillor Brewster—No, only a single operator between King Island and Tasmania. They need to be looked at individually too. Clearly that operator is there for commercial purposes. Although he has provided a service that has to some degree catered for the needs of the island, it has fallen short of the genuine needs of the island in a number of ways. For example, it is possible to fly with that operator from King Island through to Hobart, but it can be cheaper, if you purchase the tickets the right way, to fly through Melbourne to Hobart, which is clearly the long way around.

In the past there has been a significant shortage of seats at times. I think that operator has called himself a third-level airline. A third-level airline probably does not have the capacity that would be required at peak periods. Another operation, for instance the former Kendell operation or now the Rex operation, can in special circumstances throw an additional aircraft on the route, which gives a tremendous increase in capacity, whereas the small regional operator that has been running for a long time on the basis of having a maximum number of people in an aeroplane probably does not have that capacity. I think that has been demonstrated on occasions.

The other significant downside is in relation to when the Kendell service was going through to Tasmania and tourist operators on the island had been building a tourism coach market. That was catering for groups of up to 20 people. Again, they would all be travelling together in Tasmania. To get them to King Island they would have to be split up and put on numerous aircraft. There was certainly a lack of capacity there at that stage. They have virtually dropped off to nothing.

Mr SECKER—Whilst you have had a quite marked drop in tourists from nearly 14,000 to 9,500, you still have full planes on which you cannot get seats?

Councillor Brewster—Between King Island and Tasmania, yes.

Mr SECKER—What about Melbourne to King Island, Melbourne being where 80 per cent of your tourists are coming from?

Councillor Brewster—I understand that is not the case. The two airlines that operate between King Island and Melbourne have different departure points in Melbourne.

Mr SECKER—One is Essendon and one is Tullamarine?

Councillor Brewster—No, one is Tullamarine and one is Moorabbin. Clearly they are able to cater more readily for people from different geographic regions in Melbourne. Some people prefer to travel with the operator that is closest to them, and they will travel from the eastern suburbs.

Councillor Graham—Let me just cut in here, David. The Moorabbin service is a twice-a-day service. I consider myself not really old yet, and I do not mind those little planes. But what is handy about Moorabbin is that those south-eastern suburbs are a very good industrial area. We do all our business from King Island in that area because it is convenient. There are two flights a day. In that area you will find all the business houses you need, especially relating to industry. So we deal with that. But it is hard to get bookings on that plane at short notice. It is difficult because it is generally booked up.

During school holidays, if Rex is booked up, it is difficult to get your children back to King Island, to work the flights in with when they are leaving college and the commencement of their holidays. It is difficult. Even if you try to book up to six or eight weeks ahead, you cannot get a flight to King Island. It is a hopeless situation. It is probably more hopeless since King Island Airlines got the Bandeirante. They have had some ground proximity computers put into that because it is a requirement if you carry more than nine passengers. They have had digger's own trouble getting that back on the ground again. Probably if that were back on line again it might be a different situation. But these last 12 months have been intolerable, especially at peak times.

Mr SECKER—Even with the reduced numbers?

Councillor Graham—I am not so sure that King Island Airlines cater for tourists. They are more of a freight company, but they carry passengers as well. In relation to the convenience of getting freight on and off the island, and this applies to any business, if you are farming and you have a breakdown, whether it be a generator or a gearbox, it does not matter what it is, the equipment is generally heavy. You cannot put it on the boat because you cannot get a container consolidated on King Island to take freight back to Melbourne; it does not happen.

Mr SECKER—It goes only to Tasmania?

Councillor Graham—No, there is no general freight going out of King Island. It is containers of milk, cheese products, meat or whatever. You cannot put a crankshaft on top of cartons of milk because they will collapse. It does not happen. We do not have the facility to get freight items back to Melbourne at an economical rate, so we have to fly them. The only way to do that is with King Island Airlines because they take that sort of freight. But it is going to cost you $1.40 a kilo each way. It is only a small thing, but you will want to bear in mind that we do not have access to a courier or you cannot jump in your vehicle, drive down the road and get it fixed or even drive four hours and get it fixed. You cannot do it. We have no options other than the air service.

Mr SECKER—You mentioned the schools. Do they go to year 10, like on Flinders Island?

Councillor Graham—Yes, they basically go to year 10, but they are trialing years 11 and 12. I am not being a snob here, but they are not the academic subjects. Don't cut my throat, but they are the humanity type subjects. I am a bit of a philistine, really.

Mr McARTHUR—Could you tell us about the quality of the two airports and what the facilities and the runways are like?

Councillor Brewster—There is one airport.

Mr McARTHUR—There is one at Grassy, is there?

Councillor Brewster—No, one airport at Currie. The airport at Currie has three runways. The main runway is sealed. I had the dimensions written down, but I have not brought them with me.

Mr SECKER—It would have to be at least 1,600 metres if you are flying in Saabs.

Councillor Brewster—Saabs and Metros are about the limit. I think it is 1,530 metres. That number comes to mind. The other runways are shorter. One of those is quite short. They are both gravel, although one of them has sealed ends.

Mr McARTHUR—What is the quality of those? Are you happy with the runways and the airport facilities?

Councillor Brewster—The council, since it has taken ownership, has built a new terminal, which was very much required. The former terminal facility was an absolute disgrace. In the last couple of years it has sealed the main runway. Prior to that we had three gravel runways. Clearly there was concern about damage to aircraft.

CHAIR—What did that cost you?

Councillor Brewster—I am sorry, I do not have that number in my head.

Mr McARTHUR—You are basically saying to us the runways are not bad; you fixed them up. You get 14,000 visitors, according to your submission. So what problems do you really have? You have a commercial operation with visitors flying in and out. You have a good runway. You probably have land values reflecting that position. You have a good rainfall. So what difficulties do you face?

Councillor Graham—I think the biggest problem is the cost of the airfares. It costs $1,000 for a family of four to get off the island; for parents and two children. With the Bass Strait Vehicle Equalisation Scheme, if you want to take your car it will cost you $360 net plus wharfage. Wharfage on King Island is $25 per car per trip. So that is $50.

Mr McARTHUR—You are upset about the subsidy going to the mainland, from Tasmania to the Australian mainland, and you are not getting it; is that what you are saying?

Councillor Graham—We deserve something to help offset the high costs of getting on and off the island. In particular, if you want to take a holiday or a trip, there is a high cost in getting your family and vehicle off, while in Tasmania you can get on the—

Mr McARTHUR—But it is not reflected in the 14,000 visitors. They do not think it is a high cost. They are happy to come and see you.

Councillor Graham—I am probably talking about the residents of King Island. You can look at this two ways. Tourists are spending money they have saved, and really they do not care how they spend it. But the residents of King Island are living there. It is a very healthy economy. The beef industry is worth about—

Mr McARTHUR—If it is a healthy economy and the tourists are coming, why should the government put in a subsidy?

Councillor Brewster—We have three air services. Each of them flies from a different departure point to King Island and effectively each of them has a monopoly on that route. An example of that monopoly is reflected in their pricing. Yesterday I booked a one-way seat from Melbourne to Burnie airport—$90. If you want to travel one way from Melbourne to King Island, it will cost you in excess of $200. If you want a flight through King Island to Burnie, it will cost you in excess of $500.

Mr McARTHUR—We have had evidence that the maintenance of a regular transport operation is a good thing and, even if they have some monopoly, at least they will maintain the service. We are hearing that the service is maintained on a daily basis, that the price is

reasonable and the service continues to operate. That is not the case with other evidence we have heard. In Flinders Island's case, 17 operators over 17 years went broke.

Councillor Graham—You did not use the word 'affordable'. Did you say it is economical? The air services to King Island are dear, in anyone's book.

Mr McARTHUR—That is going to be the case, though. You have a small operation; you do not have economies of scale.

Councillor Graham—I agree entirely.

Mr McARTHUR—Nobody is arguing the case that you can provide a highly economic service to a small population on an island out in Bass Strait. Nobody has argued that case.

Councillor Graham—I agree with what you are saying. But you have to look at the fact that we do not have access to a national highway system, which we all pay for. We do not have access to these special rates that TT Line are offering where you go with your vehicle for about $80. We do not have access to any of that. As I said to you before, to get off the island—

Mr McARTHUR—So you would like to be included in the Bass Strait subsidy; is that what you are advocating to us?

Councillor Graham—We are in relation to a vehicle on a boat. But that vehicle on a boat is costing us, without the subsidy, $460 or $480 plus $50—$530—less the equalisation, which I think is $150. It is still a lot of money. If people in Tasmania had to pay that, all hell would break loose. It is like the fuel on King Island. We are paying $1.27 for petrol out of the bowser. If people in Melbourne had to pay $1.27 for fuel, there would be a riot.

Mr McARTHUR—But you choose to live on King Island.

Councillor Graham—We choose to live there. It is a very healthy economy, but we also contribute to the federal system. We do not have access to the national highway system, unless we pay $1,500 for the privilege of getting to Melbourne and drive. For the return government gets out of King Island and for the healthy economy, we do not call on government for drought relief—never have done; never will do—and we do not call on government for flood relief or fire relief. You name it, we do not do it. The only thing we ask for is a bit of assistance with our essential services, which is the air service, being able to get on and off the island, and the shipping service. We do not have access to contract rates, like they do in Tasmania. For argument's sake, if I live in Tasmania I can get a livestock trailer from Tasmania into Melbourne and back into Tasmania for between $800 and $1,000 less on Brambles than I can with Patrick.

Mr McARTHUR— I rest my case. You choose to live there. You have some difficult circumstances. Some people live in other parts of Australia that have difficult circumstances. It seems to me you are not going too badly at the moment. You have not put a case here that you are badly disadvantaged.

Councillor Graham—I have just explained to you the freight rates. I can give you another freight rate. We can talk about road freight equivalents.

Mr McARTHUR—I rest my case.

Councillor Brewster—Some years ago the King Island community was forced virtually at gunpoint to take over the airport. The cost of the operation of that airport is unsustainable. Just recently the cost overrun, if you like, or the deficit in operating that airport has been revised from $49,000, which was the figure in the submission presented to you, to $54,500.

Mr McARTHUR—Out of your rate revenue?

Councillor Brewster—Out of whatever revenue. We do not have a large revenue to play with.

Mr McARTHUR—What is the total revenue of your council?

Councillor Brewster—Our total revenue is around $3 million.

CHAIR—You say $54,000. The people from Bairnsdale lose $170,000 a year operating their airport and they do not have an RPT or even a regular charter service.

Councillor Brewster—But they can jump into their motor car and drive, and they have a much more significant rate base through which to fund it.

CHAIR—We want to be able to identify the areas of actual disadvantage. People go and live on an island for a lifestyle choice. People live on islands near where I live in Bundaberg. They do that because that is where they want to live. They want to live on Fraser Island or Lady Elliot Island or wherever. I have a mate who has bought the whole island in Gladstone harbour. He chooses to live there, but he has to provide a boat to get back and forth. If he takes his car over, he has to take a front-ended ferry, very similar to the one we saw at Flinders Island the other day. He knows that is going to cost him. I accept your argument that you do not get the full value of the freight equalisation. You have to craft your approach to the government in those terms: that you do not have a national highway and all you ask is that your sea freight and your access to air services be ameliorated to represent that. To me that is the core argument.

Councillor Graham—But are we not doing that now?

CHAIR—Sorry, but I think you are all over the garden. You are not walking up the front path.

Councillor Graham—I will take livestock trailers as an example. I have studied this in depth. I can get a livestock trailer carted anywhere along the eastern seaboard of Australia for 5c a kilo live weight. With freight equalisation from King Island to Melbourne, it is costing me 13.6c per kilo. That is a factor of 2.5, nearly three, and that is after freight equalisation. If we talk about a national highway system like you are talking about, surely we should talk about road freight equivalents, which is what they are talking about in the Tasmanian Freight Equalisation Scheme. Five cents compared to 13.6c, therein lies our case.

Mr McARTHUR—But what the chairman is suggesting, and what I am hearing you say, is that King Island is missing out on the mainland Tasmania freight equalisation. Is that what you are telling us?

Councillor Graham—No. I am talking about from King Island to Victoria, which is interstate—that the Tasmanian Freight Equalisation Scheme applies and, even with the rebate, it is still costing us 2½ times as much to get our cattle to Victoria.

Mr McARTHUR—So what should the government do about it?

Councillor Graham—Look at the freight equalisation scheme, as they said they would, and start reviewing those rates so we are putting on the equivalent of road freight equivalents.

Mr GIBBONS—So you are saying that, even if you had the equalisation scheme, it would be nowhere near enough?

Councillor Graham—It is still 2½ times. That is the first thing. The second thing is that we are not allowed to bring our trailers with cattle in them back to King Island; they go via Devonport. There are welfare issues. So our livestock trailers come back empty. We do not get any freight equalisation on that. We cannot put foodstuff in them. We cannot put anything in those trailers.

CHAIR—It is a quarantine issue, is it?

Councillor Graham—It is not only a quarantine issue but also a welfare issue.

Councillor Brewster—Animal welfare.

Councillor Graham—You cannot have cattle on a livestock trailer for more than 30 hours because of marine orders. That is fair enough too; you cannot do it. So the trailers are coming back empty. There is no freight equalisation on those empty trailers coming into King Island. But if you lived in Tasmania you could bring those trailers back full of livestock. So straightaway that $1,135 is not a problem. That equates to a lot of money when you have 54 steers in a trailer. That is the first thing.

The second thing is people choose to live in Tasmania: way of life, nice environment, maybe it is the dams. But the federal government are still pouring money into TT Line. They have done in the past and they probably will in the future. The federal government are pouring money into a shipping service, and all we are saying is we want a bit of the cake. That is all we say.

Mr GIBBONS—Councillor Brewster, going back to your first comments, you said the only way to get people on and off the island is by air. I am still yet to be convinced that that is the case. For example, in your submission you cited the major shipwrecks, which have been obviously a huge problem over many years, centuries, and the rough water. Certainly with modern vessels today, like a high-speed, shallow-draught catamaran that has stabilisers or bow thrusters, as most of the new ones have, could you not argue a case that a high-speed ferry would be appropriate?

Councillor Brewster—There are mixed views on that. Clearly the port facilities on King Island present some limitations in terms of the size of the vessel that can get in.

CHAIR—What are those limitations—the length of the jetty, the depth of the water? What is it?

Councillor Brewster—The length of the vessel is probably the biggest factor.

CHAIR—Are there unusual currents there?

Councillor Brewster—No, it is just that it is a small port. It is not a big port. If a vessel gets in, it has to turn around to get out.

Mr GIBBONS—But these new vessels come with bow thrusters. They can turn in their own length.

Councillor Brewster—Yes. I gave the maximum dimensions. Any of the catamaran services previously provided across Bass Strait have failed for various reasons. I heard comment in the hearing the other day about wind on Bass Strait being similar to winds in other parts of the world. The wind is not the issue. The wind is an issue when it comes to berthing a vessel in the port of Grassy. The size of the seas in Bass Strait is the significant factor in what a vessel can or cannot do. It is not uncommon to have seas of 20 metres. They are big seas, 20-metre seas. That is scary stuff in a big boat. Clearly there are significant structural limitations on what catamarans can tolerate. What is really important to the island is the freight that Councillor Graham spoke of in connecting with vessels that are departing the port of Melbourne for Japan. If those connections are not met, there are significant consequences for the producers on the island and for the abattoir. In fact, all the information that I have seen in relation to the fast catamarans suggests that they would not be able to provide a service.

Mr GIBBONS—A monohull vehicle would have the hydraulic stabilisers and the bow thrusters.

Councillor Brewster—If the Commonwealth were prepared to provide something to the community of King Island that would do the job, I think the community of King Island would be delighted.

Mr GIBBONS—That would save some of your freight problems too, with the incidental items that you say cannot be put on the existing barges. I find it so ridiculous that you cannot put a generator on a ship that has containers on it. Surely you can crane it on and lash it somewhere.

Councillor Graham—Unfortunately we are locked into a system where the ship deals with containers only. Those containers are on cassettes—four containers per cassette. They are shifted as blocks, and they are block stacked. If I want to get a cylinder head—

Mr GIBBONS—I do not doubt you.

Councillor Graham—It is a hopeless case. If you know somebody on the ship and you front up with half a dozen crayfish, you might be able to poke it in the corner. But if you get caught doing that you are done, because you cannot walk across the pavement. That is the way it goes.

Mr McARTHUR—Are the crayfish good? Are they good crayfish?

Councillor Graham—I could get you a crayfish any time if you go easy on me.

Mr McARTHUR—We might come down and see you. Give us a bit of crayfish and we will come and see you.

CHAIR—I do not know whether we should have that on the record.

Councillor Graham—I should have brought some over.

CHAIR—I do not know whether we are dealing with crayfish.

Councillor Brewster—This could be considered commercial-in-confidence.

CHAIR—There is a general will on the committee to help and to put alternative views to the Commonwealth government. But, Councillor Graham, it cannot be on the basis of, 'We are the victims; we are missing out all the time.' You have to craft a case in which you talk about your self-sufficiency and equity, yes, and part of the equalisation scheme, yes. But, to be frankly honest, I got the impression that you were arguing the victim with me.

Councillor Graham—No, it is very difficult because I am trying to get my head around this. I can put to you the figures. For instance, it costs—

CHAIR—But, look—

Councillor Graham—All I am saying is if I cannot give you the figures—

CHAIR—There are freight advantages and disadvantages all around us.

Councillor Graham—I agree. I have not even touched on them. If I cannot give you the figures, then I can give you a lot of dribble which does not make any sense. But I can give you the figures and show how they back up the disadvantage we have. We have a good climate. It is an excellent grass-growing climate. We can raise any livestock down there.

CHAIR—Let me take your livestock carrier as the example. The fact that you cannot keep the cattle on there for over 30 hours is not because King Island is an island. It is just a fact that that vessel has to go that much further to get there, surely.

Mr SECKER—No, it is 30 hours because they have to go via Tasmania.

Councillor Graham—Can I just clarify that. The ship is on the seas for 10 hours or 12 hours, depending on the weather, whatever goes on. But it could take 30 hours from the time the cattle are loaded at the property to the time they are delivered to the destination. If it takes longer than

that, you have to offload them, water and feed them, leave them overnight, rest them and put them back on again, and that all costs money. That is the situation. If a ship like the *Matthew Flinders* is taking a long voyage, then you are going to have problems. That could take 13, 15, 16 hours to get across. It depends on whether you are sailing against the rip or with the rip when going through the heads. There are a lot of issues.

There are welfare issues. If Hugh Worth had his way he would stop it tomorrow. The animal liberationists tried to stop the use of two-deck trailers in 1991 when it was started. They tried to stop it. We developed a code of practice. We formed a committee. We address all these animal welfare issues, so we do it right. All I am saying is we cannot have a duration longer than it is now. You asked the question, 'Why don't you get all your cattle processed at the abattoir? You have an export abattoir there, so why are you sending cattle off the island?'

CHAIR—No, none of us asked that.

Councillor Graham—That is okay. I can give you an answer.

Mr GIBBONS—We only want answers to questions we ask. We do not want answers to questions we do not ask.

Mr McARTHUR—You are saying you are disadvantaged. What is the value of the land?

Councillor Graham—The value of the land?

Mr McARTHUR—Per acre. Just a ball park figure.

Councillor Graham—How long is a piece of string? If it is a small block it costs more. On a large holding, I would say it is $500 or $600 an acre. That is a large holding.

Mr McARTHUR—You live on King Island. This is for dairy type activity?

Councillor Graham—There are smaller properties. It might be around $800 or $900. I think a property sold recently for about $900, was it?

Councillor Brewster—Yes.

Councillor Graham—That was well developed with good improvements. It depends on the improvements, the house—

Mr McARTHUR—We understand you have a good dairy industry with your cheese industry. That is what we hear on the mainland. Is that right? The dairy industry is quite good and you make good cheese?

Councillor Graham—The grazing industry is going through a good time, yes. Yes, it is.

Mr McARTHUR—I make the observation that there is a relativity of land values and you have some disadvantages—

Councillor Graham—Can I just say something here. Farming on King Island is like hydroponics. If you do not put the fertiliser on, which is our major input, you will not grow grass. That fertiliser costs about $100 a tonne to bring into King Island. The purchase price of that fertiliser, depending on which one you buy, is between—I do not know what it is these days.

Mr McARTHUR—Without getting into a detailed argument, there is a relativity in choosing to live on the island. We observe that you have a good commercial service for the tourists. You get 14,000 tourists. One point you are putting to us is the airstrip might need some capital funding to upgrade it. But, apart from that, you are in a similar situation as a lot of people in other areas of Australia: there are some advantages and disadvantages in where you live.

Councillor Graham—I take it one step further.

Mr McARTHUR—We have had other witnesses here who live in regional Victoria. They have some disadvantage in terms of their air services.

Councillor Graham—Yes, but with all due respect to these people, and I do not begrudge anybody putting up their case, even if I lived on the western plains of New South Wales I could get in my vehicle or whatever and drive to Dubbo, Tamworth, Sydney, Newcastle—anywhere to get what I want.

Mr McARTHUR—You can do that now. You can take an aeroplane or a ship on a daily basis. We have had evidence that some of the other communities cannot do that.

Councillor Graham—How can we do that on a daily basis?

Mr McARTHUR—You can take an aeroplane, according to your schedule here.

Councillor Graham—We can spend $400 and fly to Melbourne, hire a car, buy a car, drive a car and go to wherever we have to go. Yes, sure. But let us be realistic about this. We have to keep it in context. The federal government is pouring money into other services around Australia, and King Island is missing out. There is no point saying, 'You are doing all right down there; you have a good climate; you have good grass; you get a good price for your cattle,' and so forth. Only 18 months ago we were getting 70c a kilo live weight for our cattle. Let us not forget that.

CHAIR—Councillor Graham—I should not be putting words into your mouth—you can argue your positives and your equity argument with the freight equalisation if you like, but do not argue the victim. It just does not enhance your case. Do you understand?

Councillor Brewster—King Island has 15 per cent of the state's beef herd.

CHAIR—Fifteen per cent?

Councillor Brewster—Fifteen per cent of the state's beef herd.

CHAIR—That is significant.

Councillor Brewster—I doubt that King Island gets 15 per cent of the subsidies that are thrown at transporting beef out of Tasmania.

CHAIR—Those are the sorts of figures to argue.

Councillor Brewster—King Island has five per cent of the state's dairy herd. The dairy industry on King Island has experienced considerable growth. It has been a roller-coaster ride for King Island.

CHAIR—Your marketing has been superb as well. Do not talk yourself down; you have done a marvellous job.

Mr McARTHUR—We read the commercial pages about King Island dairy, and we reckon it looks pretty good.

Councillor Graham—We talk about freight equalisation. About 46 per cent of that goes to 12 companies, none of which is on King Island. If you want to start talking figures about not being—

CHAIR—No, I do not want to go through another row of figures. I did want to ask the mayor something, however. We started to touch on this the other day but we did not develop it. If you could get Saabs back on a triangular route that would really help, would it not?

Councillor Brewster—It would, yes. The Saabs have a capacity to handle people who have disabilities. There is a chairlift facility on King Island which enables people to board the Saab or the Metro.

CHAIR—Another strong point. I would be arguing that. I think you could boost your tourism still more. On comparative figures, Norfolk Island is not as big as your island, it has the same resident population as your island, give or take a hundred, and it is turning over 40,000 tourists a year. So there is a lot of potential left in King Island if you can get the right sort of air service. Have you explored, for example, in talking with the Tasmanian government and Flinders Island—and I recognise the length of runway on Flinders is a problem— the possibility of a regular Saab or similar type aircraft providing perhaps a weekly service, four days a week to King Island and three days a week to Flinders? Do you know what I am talking about?

Councillor Brewster—Yes. I would agree. There is an opportunity to significantly develop tourism on King Island. The tourism operators on the island have considerable excess capacity. They have done it pretty tough over recent times. They do not have the forward bookings that they have previously enjoyed.

CHAIR—Have you thought, for example, of coming to the government with a proposition to trial something like a triangular service, say for six months, with some government support? The federal government did support some Kendell and Hazelton routes in New South Wales and some Flight West routes and some Qantas routes in Queensland in the Ansett aftermath. How about crafting a positive case along those lines and including Flinders Island, where you might have two triangular services, one going this way Monday, the other way Tuesday, and back the other way on Wednesday? You also have the advantage then of giving them the opportunity to take, say, people from Launceston to Melbourne and from Melbourne to Launceston and

making that service more viable for them. Do you know what I am saying? I think you told me at the hearings that you did very well when you had the triangular service.

Councillor Brewster—Yes. The opportunity to expand some facets of the tourism industry was taken up by people on King Island. There is no question of that. But they were very disappointed when that service was withdrawn.

CHAIR—I should not be saying this, because we are supposed to be listening and not telling, but I would be trying to craft a case to the government, in conjunction with Flinders Island and the Tasmanian government, for getting those air services restored. I would be looking to get the equalisation scheme extended to the two islands. I would be concentrating on that. I would be putting positives to the government, not saying, 'We are the victims; we are not getting a fair shake.' I do not think anyone goes for that. I would be talking to the strengths of King Island: what you have done with the marketing of your dairy products and what you have done with your cattle. I go to a restaurant in Canberra. King Island beef is the only thing they serve. You have some very strong positives that people in Canberra will identify with. I would be playing to those positives and saying how much better you could do, rather than saying, 'Poor old me, poor old me; we are missing out.'

Councillor Brewster—We on King Island do face a basic dilemma in that any conversations I have had with state representatives would appear to have fallen on deaf ears. Any overtures or advances we have made in relation to air services within the state have not been listened to. My question would have to be: is there an opportunity for King Island to engage in dialogue directly with the Commonwealth in relation to these issues? Clearly the state government have an interest in seeing the larger part of the state accommodated first. I am not saying they are totally ignoring the fact that King Island and Flinders Island exist, but clearly there has been an interest on the part of the state government to see tourism develop within the mainland of Tasmania on the back of the TT Line and the fast ferries. Most other things have developed as poor cousins.

Mr SECKER—I think even the Launceston people say tourism has become more Hobart-centric as a result of the tourism push by the state government.

Councillor Brewster—I wonder whether there is an opportunity for King Island to enter into some meaningful dialogue directly with federal government representatives in relation to what might be achieved there. My understanding of the Kendell operation, now the Regional Express operation, is that the flight from Melbourne to King Island existed only because an aircraft would have otherwise been parked doing nothing for that two-hour period. So I guess there was an opportune component to that service. Asking Kendell, or in more recent times Regional Express, to extend their service through King Island to Tasmania takes it beyond that opportunity time slot, if you like.

CHAIR—That scheduling window.

Councillor Brewster—Yes, and changes to their schedules are pretty significant.

CHAIR—We will probably call Rex some time in the future. They have come up in several submissions. So we will doubtless be calling them some time and we can put some of these propositions to them. I am afraid we have to wind it up there because we have another witness

waiting. Would someone on the committee like to move that the document from the King Island Council be accepted as an exhibit and taken into the record of this inquiry?

Mr SECKER—So moved.

CHAIR—There being no objection, it is so ordered. Thank you, Councillor Brewster and Councillor Graham, for your evidence. Thank you, Councillor Brewster, for lining up twice for our inquiry. We appreciate that very much. We will be forwarding to you a copy of the proof *Hansard*. We ask you to check that for accuracy and return it to us. We trust if we need any further information, even though your submission is very thorough, we can come back to you.

Councillor Brewster—Certainly.

CHAIR—Thank you very much.

[4.36 p.m.]

PRATT, Mr Robert Arthur, Managing Director, Island Airlines Tasmania

CHAIR—Welcome. We will not be requiring you to give evidence under oath, but we ask you to remember that these hearings are formal proceedings of the parliament and warrant the same respect that attaches to proceedings of the House itself. It is customary to remind you and other witnesses that the giving of false or misleading evidence is a serious matter and could be considered a contempt of the parliament. Having said that, you are most welcome. We would also like to thank you for making your presentation today. We realise the difficulties you had the other day. It is very kind of you to wait all day. Would you like to give us a five- to seven-minute overview of your submission, and then we will ask questions.

Mr Pratt—Certainly. Thank you, Mr Chairman. I apologise for yesterday. We made every attempt, but we could not get into Flinders at that particular time. According to the current Flinders Island tourist information brochure, seven air services in fact operate in and out of Flinders Island. Out of these seven, Island Airlines Tasmania is the only routine passenger transport operator. At least one of the remaining operators of this group sells seats on a per seat basis, which is in direct contravention to CASA regulations. The price difference for his operation versus the price difference for us is about $70 on a return air fare to Melbourne.

This price differential is achieved by virtue of the following. His landing at airfields that are not approved for RPT operators gives him a saving of around $20 per return flight seat. The shorter distances he flies saves him about $26 per seat. The lower landing fee in Victoria gives him another saving of about $5. He and his pilots not being required to meet pilot proficiency tests gives a further $5 saving—I am not saying these are dead accurate numbers; they are approximates. There being no requirements to maintain his or their aircraft to class A systems of maintenance saves an estimated $30 a seat. There being no requirements for port facilities such as reception areas, baggage handling staff and that sort of thing saves about $6 a seat. There being no requirement to fly by Instrument Flight Rules for each flight, which attracts higher air service charges, gives a saving of about $2 a seat. That comes to a saving of around $94 a seat.

That being the case, I am fairly confident Island Airlines Tasmania could compete very effectively against any one of these operators if we were playing on the same playing field using the same rules. Our service levels would also rise because the regulations under which we operate prohibit us from using just any aircraft. A class A operator, or an RPT operator, can use only aircraft that are registered on his Air Operator's Certificate. He does not have a pool of aircraft to call upon in the event of a breakdown. He can call on only the aircraft within his fleet. It does not matter whether we are talking about Virgin or Qantas; it is exactly the same. Obviously as your pool of aircraft gets bigger your options become wider. A charter operator has the ability to call on any aircraft that is in class B maintenance. If he has a breakdown, he can call on aircraft from his mate around the corner and fly it without any breach of regulations whatsoever. Every aircraft that is on our AOC must be on our system of maintenance and must follow exact maintenance procedures.

Current regulations for air operators are skewed to financially favour charter operators rather than RPT operators. The question then is: why do we continue as an RPT operation? Theoretically, an RPT operation is the only legal way for us to operate and sell per seat. Operating a high-cost RPT service is possible because theoretically you are competing with only other like-minded services. The federal government has not acted on the enforcement of this particular aspect over the past two years—that I can vouch for—with the exception of perhaps one case. The only examples of positive discrimination the federal government shows towards RPT operators, to my knowledge, is in the remote air service subsidy that it provides for what are considered isolated communities, where preference is given in the tender specs to routine passenger service operators, and in the rebate on air service charges. Those seem to be the two elements.

Against that backdrop, the community of Flinders Island is serviced by what is a basic routine public transport service going back and forth from the island and at peak periods, such as Christmas, Easter and those sorts of times, has a huge influx of charter operations coming in and out. So just looking at the concept of routine passenger services is a bit narrow, in my view.

With that in mind, I thought I would go through what I think is the future for air operators on Flinders Island. In aircraft of nine seats, if we look at an analysis, say, of running a turbocharged piston engine aircraft as against a turboprop, we find the seat to mile cost of a turboprop aircraft is nearly double that of a piston engine aircraft of roughly the same seat capacity.

Although turboprops are much more reliable, they do not tend to have the same economic capacity until you get to about the 18-seat capacity, and then you start getting economies of scale, which means you are starting to get to roughly the same operating costs per seat as a piston engine aircraft. Typically, this sized aircraft is about 5,700 kilos, and any RPT operators of this sized aircraft fall into the high capacity RPT component, which is yet another hurdle. Services operating aircraft above nine-seat capacity are required to run two pilots per aircraft and have ground proximity warning systems at a cost—I heard this mentioned in relation to King Island—of about $100,000 an aircraft. Also, the pilot proficiency test checks are much higher in that capacity aircraft.

Against that, there has been significant scepticism amongst financial lenders during the past 12 months. I had the misfortune of trying to buy an aircraft on 12 September and had to jump through all sorts of hoops. But generally there is a lot of scepticism in the financial markets in relation to the aviation industry, and it has been supported by the number of airlines, both here and overseas, which have become unviable and ceased operation. You mentioned the huge number of airline operators going in and out of Flinders Island that have had an average life of about a year. I am not sure whether it shows I have a big heart or a small mind, but I have been here for two, and it is not as financially viable as people might think.

There is no rocket science in the way in which we apply our fare structures. We work out our total cost per flight, we work out our load factor and we divide the costs and whatever profit we want to make by that load factor. That would be the same formula used by any airline around the world, I would imagine. When running an 18-seater turbine aircraft, you need to average 11 passengers per flight to break even. Over our peak holiday periods we are able to fill an 18-seater aircraft without any problem at all but do it only one way because everyone will be going down to Flinders Island and the plane will come back empty. In fact, on Easter Thursday

and Good Friday we have put on something like six additional flights and over those six additional flights we have two passengers coming on the return.

CHAIR—Say that again.

Mr Pratt—Over those six additional flights, we have two passengers coming on return—total.

CHAIR—It is all one-way traffic?

Mr Pratt—It is all one-way traffic. So you are immediately placed in the position where you have a 50 per cent load factor. The more we push our prices up in the face of these types of cost factors, the more we push people into charter operations. Then the whole process of RPT operations into these islands begins to self-destruct. There also comes a point in the whole process where the interests of the airline operations are not the interests of the tourism industry of the island and of the community as a whole. I am not averse to realising that what we are doing might not be good for us, but it could be very good for the community in terms of tourist dollars spent and so forth. But in a one-way traffic sense it does not really behove us to put too many one-way flights on.

In my view, we need to somehow create an equilibrium between RPT operations and charter operations. I do not know whether there needs to be a subsidy on the one hand or a cost impost on the other, but just somewhere along the line there needs to be some sort of equal operation. CASA has proposed some changes to be made shortly in relation to requirements of charter operators to bring their maintenance schedules in line with RPT. But I have little faith that they will be enacted within two years. In my good judgment, in around two years we will be seeing those things actually come—

CHAIR—Why should they not be implemented forthwith after—

Mr Pratt—They have been discussed now for over 12 months and there is still nothing happening. I cannot imagine that it will happen soon. To me, it makes perfect sense.

CHAIR—While you are on that point, you said you knew of eight or nine breaches recently by these people, none of which had been attended to by CASA. Could you give us a bit of a flavour of that?

Mr Pratt—No, I said—to a degree I sympathise with CASA because—

CHAIR—You said only one had been brought to book.

Mr Pratt—Yes.

CHAIR—The other eight have not?

Mr Pratt—I said of the other eight operators at least one operator is selling on a per seat basis—at least one—and that is fairly common knowledge.

Mr GIBBONS—Can you just say that again?

Mr Pratt—Of the other seven operators, charter operators, operating out of Flinders Island, at least one is selling on a per seat basis currently.

CHAIR—That is illegal under the act?

Mr Pratt—That is illegal under the act. That also means that some of our backloading goes out—all of those sorts of things start to implode. If this problem in relation to charter is not attended to, it will not matter who flies into Flinders Island. This is a price-sensitive market. People will go with the lowest price. If the average punter looks at one Chieftain and then another and cannot see the difference, he will go with the cheapest, regardless. You can talk until you are blue in the face, but he will just say, 'Oh, well, if it was not safe it would not fly,' and to a degree that is true.

I am trying to say that the concept of needing subsidies has to be looked at carefully. It is not a matter of just throwing money at a particular airline operator. There has to be a measured approach to how you do these sorts of things. My personal view on this is that there is a basic need to bring operational costs of RPT operators to a level similar to that of charter operators, regardless of the aircraft type. In other words, if you are running a turbine, you will still be roughly the same price as any charter operator who comes in. I have just lost my place here.

CHAIR—Do you have a lot more?

Mr Pratt—No.

CHAIR—We would like to talk to you and ask you some questions.

Mr Pratt—My proposals are probably this: the payment of landing fees and passenger taxes is probably best made directly. If there is going to be some sort of subsidy, I do not believe it should go to the airlines directly. I think landing fees and passenger taxes for the upkeep of airfields on the basis of their being a community asset need to be paid directly to the people who provide the service, the councils, or that sort of thing.

Capital finance for turboprop aircraft for RPT operators I believe should be available—I am not saying we should be getting this in some sort of cheap way, but it should be considered in the same way as rural assistance type funding—and looked at as a development and an investment in the community, and operators can have a chance to say, 'I need a break from principal payments for six months on the basis I will be able to develop this market.' But at the moment those sorts of things are not available.

The payment of air service charges should be scrapped for regional airline operators because if we were to take the lowest common denominator we would all fly by Visual Flight Rules, being the cheapest. In fact, nearly all the regional airlines that I know fly by Instrument Flight Rules regardless of the weather. They pay a significant amount more to do that, but they do it in the interests of safety. I think it would be more equitable if operators were charged just the Visual Flight Rules rate.

I believe the proposed changes for aircraft maintenance for charter operators should be brought forward as quickly as possible. RPT operators should have the ability to use any aircraft that is in a class A maintenance system. In other words, if Sharp Aviation arrive at Essendon Airport, I have a breakdown, they are running a class A aircraft and I am also running a class A aircraft, I can go to them and say, 'Can I charter your aircraft and fly it?'

CHAIR—Cross-hire it.

Mr Pratt—Cross-hire it, which is not available currently. That would significantly improve the service levels that we currently deliver.

Mr SECKER—Can you think of any reason why they will not allow that?

Mr Pratt—I cannot see why.

Mr SECKER—It just seems like commonsense.

Mr Pratt—It just seems like that to me. To me, it does not seem too much of an ask, but for them it seems to be a monumental ask.

Mr GIBBONS—One of the problems we heard about on Flinders Island yesterday was that one of the regulations precludes a charter operation or, say, your operation from carrying freight as well as passengers. If that regulation were not in place, and obviously your aircraft would be replaced at some stage in the future, would that significantly enhance your business—if you were able to carry freight as well as passengers?

Mr Pratt—That is not quite right. There are aircraft in which you can carry freight and passengers, but they are not ones we operate. I personally would not like to see that happen because I do not think it is a safe thing to do. I think that freight needs to be properly restrained and kept away from passengers. So in the aircraft we are running I would not like to entertain it.

Mr GIBBONS—I had imagined it would be in a freight compartment of an aircraft with appropriate lashings in place, and if it were safe—

Mr Pratt—Yes. There are aircraft that have bulkheads that are certified to take freight in one side and passengers the other side. That sort of aircraft would be fine, but I do not think in the sort of cabin class we are running it would be right.

Mr GIBBONS—You were quite critical of CASA. Can you give us some other instances where you think CASA has retarded the industry by some of the regulations? Is the criticism of CASA more to do with the actual regulations or the way CASA personnel interpret the regulations?

Mr Pratt—No, I think the problem is proving the case from CASA's point of view. I think the regulations are there. I think there is a willingness by CASA to prosecute it where they find it. But these guys are not as green as a cabbage; they are quite clever in how they operate. If they appear at an airport, they just say, 'No, this person has chartered the entire aircraft. I am running it under charter.' CASA have a lot of trouble trying to fight that. I am not saying that

there is any lack of willingness on CASA's part to try and deal with this issue, because they have dealt with it in one case—it took them a long time to do it, but they did finally get to it—but it is a very hard case for them to prove. In the meantime the situation goes on in commercial reality and we have to deal with that.

Mr GIBBONS—Also, it seems to me that your operation on Flinders Island is very much linked with the Flinders Island tourist operators. What sort of relationship do you have with them? Do you have regular meetings, for example, where you might discuss mutual benefits to both your operation and theirs? Do you have a good rapport with them?

Mr Pratt—I think it would be fair to say we have a good rapport with some but we do not have a good rapport with others. It would also be fair to say that there are a large number of people who run tourism-focused enterprises on Flinders Island who are great supporters of the charter industry there. I am not sure whether that means they can offer a lower-priced deal or they can make more profits. I am not sure.

Mr GIBBONS—Would it be because some of them have to rely on charters because they have live fish—

Mr Pratt—Sorry, I was talking about passengers; I was not talking about freight. A lot of freight going off Flinders is going at night because of the temperature considerations, and I understand that. However, I think there is a business case to be made, but unfortunately it has to run for a little while before it can be proved, that if you had an aircraft that was leaving late enough in the day coming back to Melbourne and it was the type of aircraft that could take a significant amount of freight and a significant number of passengers, let us say nine passengers and a fair whack of freight, you would be able to offer freight rates that would probably be more competitive than bringing an aircraft down on charter, and it would start to generate a situation where a turboprop aircraft actually becomes a profitable enterprise in its own right. It would need to be one of those aircraft where you can move the bulkhead up and down so that you could cut the number of passengers to, say, six to be able to carry more freight or in peak periods cut down the freight. I think it is doable. But to make a financial case for that when it is unproven is pretty difficult. We are just really going on guesswork.

CHAIR—One of the complaints we heard, not specifically against you but in general, was that if RPT operators have a number of single and double bookings they do not always have seats for groups of, say, four, five or six people, whereas charter operators can do them as a package. Quite a few of them over there do have package operations.

Mr Pratt—Yes, and I think that is where part of the culture comes. I think it would be fair to say that, theoretically, we should be of around the same—well, we cannot compete on the same level because we do not have the same cost base.

CHAIR—Of course, we understand that argument.

Mr Pratt—So when we come to tender for a charter we still have the same problems with our cost base and they still have the reduced cost base.

CHAIR—Do you have a charter operation as well?

Mr Pratt—We can operate under charter, but we rarely win it on price.

CHAIR—Because your aircraft have to be up to RPT standard anyhow.

Mr Pratt—We have a different cost base.

CHAIR—Can you have two pools of aircraft if you are an RPT operator?

Mr Pratt—We could.

CHAIR—What is your current fleet?

Mr Pratt—We have only two that we own ourselves. We have another aircraft which is on our AOC but which we very rarely use. So we basically run on two aircraft.

CHAIR—What sort of aircraft are they?

Mr Pratt—Two Piper Chieftains, cabin class, 10 seats, or eight seats. We fill them to eight seats on the basis of—

CHAIR—What is the third aircraft?

Mr Pratt—The third aircraft is another Chieftain.

Mr SECKER—You fill them to eight seats on the basis of?

Mr Pratt—On the basis of keeping a couple of seats for baggage and freight. When we book, we book to eight seats. We do not book to 10 seats because we then get people arriving without their bags and that sort of situation. So we have taken a view that we will book to eight seats.

Also, I know people have made the criticism that they cannot get down at peak times. We put on numerous extra flights, even though it is not really to our advantage to do so, because it is part of our being a community airline. We are part of the community, and we therefore have to put on extra flights at times, because their prosperity is our prosperity. If they make money over their holiday season, hopefully they will spend it with us through the year. But we do better through the year than we do over the holiday season.

Mr McARTHUR—You may have mentioned it, but could you give us your view on the upgrade of the airstrips on Flinders Island? That seems to be a big issue, according to the council.

Mr Pratt—If we sealed the larger strip, it is still not running into prevailing winds. That is one of the problems, I think. We have run Metros in there, but every aircraft is limited by the cross-wind performance. So, if you have an aircraft that can land on the longer strip only and there is a wind blowing more than, say, 25 knots, you are still not going to get in.

Mr GIBBONS—So we have to do something about the wind?

Mr Pratt—The right way for the longer strip to be facing would be east-west, and that is the short strip direction.

Mr GIBBONS—Is there capacity to do that, assuming there were funds available?

Mr Pratt—If you wanted to build out into the sea and spend lots of money.

Mr GIBBONS—So that is one—

Mr Pratt—Yes, I think those are the significant issues in relation to Flinders.

Mr GIBBONS—Either into the mountains or into the sea, either end?

Mr Pratt—Yes, you have a road, a bridge and all that sort of thing and you have to rip up one end, and then you have the sea at the other. People seem to think that sealing that long runway is the panacea, but I do not know whether it necessarily is.

Mr McARTHUR—What is your personal rapport with the council and the locals? Do they regard you as difficult or helpful or you are just doing your best?

Mr Pratt—I do not think I am regarded as being the most compliant person—I think that would be fair to say. We are mindful of the fact that an awful lot of airlines have gone belly up on this operation, so we do not necessarily put on a flight because one or two people want to get across to Launceston, even if the other flights are full. We put on a flight on a commercial basis. So that does not necessarily lend me to be thought of well in that circumstance.

Mr McARTHUR—I think there has to be an understanding that you have to operate on a commercial basis; otherwise you will not be there, just like the other fellows.

Mr Pratt—I think a large section of the community feels that way. But what I am saying is I would not be universally liked and I do not think I would be universally disliked. I know that is a political answer, but I think that is probably being as honest as I can be.

Mr GIBBONS—Do you think you would get elected to the council?

Mr Pratt—No.

Mr McARTHUR—It is interesting you raise this wind issue. We have come to understand that the whole airstrip argument, including the sealing of the strip and the amount of money available, is a very big issue within the community. But the wind factor has never been mentioned to us, as I recall.

Mr SECKER—It was at one stage, because I asked the council about it.

Mr McARTHUR—Somebody may have mentioned the mountain and redoing a totally new strip.

Mr Pratt—But the mountains are another issue. For example, the reason I did not get in the other day was that our company has a policy that if we cannot see the runway at 800 feet we do not go in. If we come down to 800 feet and we cannot see the runway, we take off. The reason for that is the mountains surrounding the airport. Although the aircraft could probably drop to 500 feet, in the event of something going wrong it would not climb out fast enough to avoid a situation. So we try to err on the side of caution. Those mountains are going to be an issue whether or not the long runway is there or sealed or—all those things are going to be there. Some aeronautical engineers have done a review of the airfield, and I think the committee should consider that before money is poured into the sealing of the runway.

Mr SECKER—Build the airport in a different place?

Mr Pratt—That would probably be a good idea.

Mr McARTHUR—What do you think the Commonwealth government could do to help you operationally—the whole Flinders Island scenario?

Mr Pratt—We would like to give something like a 14-seat turboprop in which we can move freight up and down a go. To be honest, we would like to try that. But it probably would not be financially viable in the first 12 months of operation. I do not know whether there could be some dialogue so that we could at least give this a decent run for its money to see where it went, with some sorts of checks and balances in it. Whatever airline it is, let us say they work a load factor of 60 per cent. If they run a turboprop—I heard Saabs mentioned, and I thought, 'Crikey, you need to sell 20 seats in a Saab to break even.' So, if you get four people in it, somebody has to pick up the cost of 16 seats per trip. That is serious money. We are talking thousands and thousands of dollars per trip. I do not think the wider Australian community has the resources to pour into something that will not have at least a reasonable utilisation factor. I think that is probably the nub of it.

Mr SECKER—At the moment you need two pilots for over nine passengers. What do you think about the suggestion we have heard that you need only one pilot for a 15-seater or even a 19-seater?

Mr Pratt—I do not necessarily agree with that.

CHAIR—Should it move up from nine even a little?

Mr Pratt—I am only a relative newcomer to aviation, but my information is that in times gone by there was a group of aircraft from 18 seats to 30 seats, I think it was—it might have been 28 seats—that were considered middle of the range. They were not high capacity routine passenger transport but one notch above RPT. There were extra requirements on them but not the same requirements as for high capacity RPT. I think that that would probably be a pretty reasonable way to go—pardon the pun. That has been my point of view in discussions with regional airline associations, and I think I get a little sympathy in relation to that.

CHAIR—Is there a case for the cut-off point being a bit higher than nine—say 12 or something like that?

Mr Pratt—Twelve could probably be manageable, but we are still limiting ourselves in the size of aircraft.

CHAIR—At what point do you think one pilot could have difficulties?

Mr Pratt—That is hard to judge.

CHAIR—Epileptic attack, a couple of hoons on board?

Mr Pratt—I think this is probably worked out on the balance of probability rather than on when you have a small number of people.

CHAIR—It is risk management?

Mr Pratt—And it is almost an actuarial thing rather than an aviation thing. But, yes, that is probably the reason that the numbers have come out as they are. I do not have a problem with the numbers. In fact, I think you can work around that. An operation could well find that it gathered a bit of speed after a while and was able to prove its case, but I do not think it will do it in the short term.

CHAIR—Let me go back to your point about some form of assistance being needed for these turboprops. Give us a round figure—I know it will vary—for what sort of subsidy you would need per year. It is a bit open-ended for the government, so if it were based on a passenger loading factor it would still be capped somewhere. Give us an idea what you would need to start a new generation of those.

I want to link that to something else I want to put to you. This inquiry has heard evidence that a whole range of aircraft will go out of service over the next five years, certainly for RPT services, and there is a concern about what they will be replaced with. If we link those two factors together, using you as being atypical of the market, just give us a feel for what you might think it might cost to run an 18-seater or a—what was the one you mentioned before?

Mr Pratt—The one that we like is a Metro II. It is below 5,700 kilos. It will hold probably 14 passengers. It has a door that will take cargo. It has a movable bulkhead. It is an older aeroplane, though. It is not new technology, but there is very little new technology, except for single-engine turboprops. Once again, we are waiting on changes to the CASA regulations to allow those sorts of aircraft to fly further than 50 nautical miles. Nothing will happen in that arena until CASA changes part 121 of the regulations in relation to single-engine turboprops. I am not sure what the verdict will be on single-engine turboprops flying over 50 nautical miles of water, but the talk is it will be extended to 100 nautical miles from take-off point to landing point.

It is a much slower aircraft, but it has a much higher lift weight and can take 12 passengers plus freight. Once again, there would be two pilots. It is a $3 million aircraft but significantly cheaper to run. If the ruling comes down that it will be twin-engine turboprops over that sort of leg, you will be looking at significantly higher operating costs. So, if we work on the basis of twin-engine turboprops—at the moment that is the current rule—my feeling is that you are looking at subsidising around eight seats per trip from Melbourne to Flinders Island. On average

it would be about eight seats over a return flight, which, at say $300 each, is $2,400 per trip. That is a lot of money.

Mr GIBBONS—Will your own Chieftains reach the end of their useful life in three or four years time, and are you experiencing any normal wear and tear type malfunctions with part of their apparatus?

Mr Pratt—Any aircraft is a collection of thousands of moving parts. You cannot expect that something will not happen to some of them. Within the last week we had a spate of non-starts due to technical problems. I think part of the reason for that was that during the bushfires we flew an awful lot of flights back and forth and we did not give our maintenance crews enough time at the aeroplanes. So you end up paying for that at the other end. So, yes, in recent times we did have, but we did fly the entire bushfire area without a glitch. But these things have to be maintained all the time or you will get problems. That is the nature of the beast.

Chieftains are an ageing aircraft. The technology is quite old. Yes, I can see the day dawning when a curfew will be put on them, especially for over-water operations. I can see that day dawning, but I am guessing, crystal-gazing.

Mr McARTHUR—A couple of witnesses have discussed with us how the capital gains regime will impact on the changeover from Chieftains to newer aircraft, saying it is almost impossible to make that change. Do you care to comment on that, and can you make any suggestions to the committee?

Mr Pratt—Making that purchase would have been a relatively reasonable exercise two years ago. Given a decent business plan and some types of people being prepared to go under contract for things like freight, it would have been quite a reasonable deal to put up. But now I think it is quite hard to get a financed deal up and running. It is quite difficult. All the financiers will tell you—it does not matter whom you are—it is difficult to do just at the moment. But that is the financial market's trepidation about aviation in general, I think.

Mr McARTHUR—It has been put to us on a couple of occasions, and it is in one of the submissions, that the capital gains tax regime will militate against moving from the Chieftains, when they run out of hours, to new aircraft in terms of so-called profits when selling your old aircraft and buying a new one.

Mr SECKER—You cannot roll it over.

Mr McARTHUR—Would you be suggesting any change to the regime or—

Mr Pratt—No, I do not think that would drive the decision whether or not to buy the aircraft.

Mr McARTHUR—What would drive it? Just straight-out profitability?

Mr Pratt—Yes.

Mr McARTHUR—And raising the money?

Mr Pratt—You have to raise the money and you have to be able to make the payments, put the fuel in the aircraft and pay the wages. That is what it comes down to.

Mr McARTHUR—How do you make a profit on a 12-seater when you are paying $3 million or $4 million for an aircraft?

Mr Pratt—You cannot. If you wanted to run a King Air, as I said in my submission, your ticket price would be double. That is the only way you would make money.

CHAIR—Will there be a crisis in Australia in four, five or six years time? Don't we need not just in Bass Strait but in other parts of Australia an aircraft capable of seating somewhere between eight to 12 people that is suitable to our conditions?

Mr Pratt—There are 12 licences in New South Wales that are up for grabs for regional airline operators but considered non-viable. You could be a single operator licensed in any one of these particular areas, but no-one will take them up because they are not considered financially viable. I think it is a bit easy to say these are all problems related to Bass Strait. I think there is an Australia wide problem looming, because most of the major airlines are starting to hub everyone. They pool everyone into different regional centres to fill up larger aircraft. That is the way they are trying to make them pay, because it is a matter of the number of bottoms you put on a seat and it is filling those aircraft that keeps the price of the ticket down. It is not rocket science. It is really down to what your payload is and what you can recover. That is why it is a bit simplistic to say, 'I can get an $80 seat from Melbourne to Sydney,' but there are 400 people paying $80 each, or a range of prices from $80 through to probably $250. But, yes, there is an awful lot of money in going up and down on each flight.

CHAIR—You say piston-driven aircraft are—

Mr Pratt—They are a lot cheaper to operate, but I do not think that is where the future lies. I think the long-term future will lie in turbine aircraft.

Mr McARTHUR—I just want to make sure I understand this capital gains issue, because people have argued very strongly that the salvation will be to—

Mr Pratt—So what you are saying is, if I sell my two Chieftains which have been depreciating for some time, I will have to pay such a huge amount of capital gains that that will stop me from buying a larger aircraft?

Mr McARTHUR—That is right.

Mr Pratt—Why would I do that? If that were a problem, I would put them across onto charter and I would still buy the turbine aircraft.

Mr McARTHUR—You are really saying you will put a commercial imperative on the purchase of new aircraft?

Mr Pratt—That is right.

Mr McARTHUR—It will be the charge rate, payload and running costs, lease payments and fuel et cetera? It is a straight-out, simple envelope calculation, and you will do it or you will not do it?

Mr Pratt—That is right, and I would say that would be the same basis for any airline operator going into that.

Mr McARTHUR—That rather refutes some pretty strong evidence that people have put to us that a change in the capital gains tax regime would make a difference.

Mr Pratt—I can only speak for myself.

Mr McARTHUR—They argue about rollover of one capital asset into the next one.

Mr Pratt—If it was going to be such a terrible move financially, you would say to yourself, 'I will keep that aircraft and I will put it into some other line of operation. I will run freight,' or whatever. I cannot see that you would limit yourself.

Mr McARTHUR—The sort of argument we have been hearing is that Piper Chieftains are now running out of hours, they will be out of service, and a new breed of aircraft will have to come into service.

Mr Pratt—The Chieftains will run out of hours. They have a particular airframe life, and I think it is 27,000 hours for a Chieftain. When they get to that they are coke cans: they are crushed. The frame is no longer used. So that is not a capital gains problem.

Mr GIBBONS—So you cannot rebuild it?

Mr Pratt—No.

Mr GIBBONS—The air frame cannot be reconditioned?

Mr Pratt—You can use parts of it, but none of the control surfaces can be re-used. The plane gets crushed.

Mr GIBBONS—That is contrary to what we have heard.

Mr Pratt—That is a fact.

CHAIR—Someone did say that they could be rebuilt, but the cost of rebuilding outweighed the value of what you would receive.

Mr Pratt—You cannot re-use any control surface parts.

CHAIR—Of a Chieftain?

Mr Pratt—Of a Chieftain, once it hits its expired lifetime.

CHAIR—There is a surplus of aircraft all around the world.

Mr Pratt—Yes.

CHAIR—I imagine in most categories.

Mr Pratt—Yes.

CHAIR—Is there an opportunity for Australia to have some sort of subsidy scheme or fleet upgrade scheme whereby operators like you and others in that small RPT category could be assisted in upgrading to a new breed of aircraft of which there might be a surplus somewhere around the world?

Mr Pratt—That is one of these 'sting in the tail' questions, I think. Yes, there is an opportunity in relation to upgrading aircraft now. Just to take the last part of your question first, no matter which way you do it, though, it comes down to whether or not it can be financially viable, whether you can make the payments now and five years down the track as well. It is how much fuel it burns, what its maintenance costs are. The ongoing costs are what you will pay attention to, not the initial purchase. A new Chieftain would have a $7,000-a-month lease payment. That is insignificant against a $120,000-a-year maintenance bill for labour alone.

CHAIR—In light of the anecdotal evidence we have heard so far and the fact that state governments have had to step in and provide subsidies for certain routes in western Queensland and western New South Wales, I am wondering whether regional aviation is doomed in parts of Australia. There will still be small charter groups around. But, if people like you in the small RPT category—a group which is in between the Brasilias, Saabs and Dash 8s on the one hand and the small charter operators on the other—drop out of business, I think from what we have seen so far in this inquiry there will be a huge vacuum in Australia.

Mr Pratt—I think that is right. I believe the problem will occur in the small remote communities, and it will be in developing the kind of activity of these people to other regional centres. I do not see us, for example, flying Melbourne-Sydney. It is just not part of our thing. But there are all sorts of small towns like Inverell in northern New South Wales which will lose their service. Inverell I believe will lose its service at the end of the month because the operator's subsidy is being withdrawn by, I think, Qantas and he will no longer be able to operate it. So he is facing exactly the same problems as everyone else. It gets down to a critical mass of passengers. There need to be two things. There needs to be a commitment and ownership by the community itself saying: 'This is our airline. We will send our freight with them even though it will cost us 2c a kilo more. We are going to back our airline.' So there needs to be almost a Bendigo Bank type involvement.

CHAIR—We have heard that expression a few times.

Mr Pratt—Yes. But I have learnt the hard way that there are a lot of traps in this business. Setting up an airline is not just a matter of a group of people going out there and getting an air operator's certificate, just like you cannot just go and set up a bank, which I think would have the same sorts of traps: people find they suddenly need equity capital and that sort of thing. It is the same type of thing. But I think that regional airline operators such as me will have to become a lot more community involved and will have to diversify, because it will be hard for

one community to support one airline operator. Take the argument that we want to go up to 18 seats. I can make an 18-seater work by putting on one flight a week to Flinders Island. I am sure the community would be really chuffed with that idea.

Mr GIBBONS—You certainly would not get elected to council.

Mr Pratt—But, yes, that would make the 18-seater work, and then you would go and tack it onto another flight. But I think people will have to accept that they will not automatically get coverage seven days a week from a particular airline operator, that he will have to have some commitments in some other small regional area so he can defray his capital costs over two services. I think that is probably the way in which it will head.

CHAIR—Your evidence has brought us down to earth with a bit of a thud, although that is not the right analogy for an airline, I suppose! All these inquiries are balanced between those that have the cargo cult mentality on one side and people like you who are out there at the coalface on the other, and somewhere in between are all the other users and operators. Thank you for your evidence today—it has been stimulating—and for going to the trouble of coming here after the difficulties you had yesterday. We will send you a copy of the proof *Hansard*, which we ask you to check for any inaccuracies. If we need further information we trust we can come back to you.

Mr Pratt—My pleasure.

Resolved (on motion by **Mr McArthur**):

That this committee authorises publication of the transcript of the evidence given before it at public hearing this day.

Committee adjourned at 5.29 p.m.